MUNICIPAL BUDGET-MAKING

R. EMMETT TAYLOR

THE UNIVERSITY *of* CHICAGO PRESS

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THE UNIVERSITY OF CHICAGO PRESS
CHICAGO, ILLINOIS

THE BAKER & TAYLOR COMPANY
NEW YORK

THE CAMBRIDGE UNIVERSITY PRESS
LONDON

THE MARUZEN-KABUSHIKI-KAISHA
TOKYO, OSAKA, KYOTO, FUKUOKA, SENDAI

THE MISSION BOOK COMPANY
SHANGHAI

MUNICIPAL BUDGET-MAKING

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THE UNIVERSITY OF CHICAGO PRESS
CHICAGO, ILLINOIS

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Published October 1925

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Composed and Printed By
The University of Chicago Press
Chicago, Illinois, U.S.A.

FOREWORD

The large increase in federal, state, and municipal taxes which has taken place during the past fifteen years has caused the taxpayer to take an increasing interest in the manner in which governmental revenues are expended. It has not been difficult for the city resident to ascertain that a large part of the total taxes he pays are consumed in the operation of the local government of his city. In fact, the increase in taxation for local purposes has, in many cases, increased more rapidly than the taxation for state purposes, and even more rapidly than taxes for the purposes of the national government if we exclude the taxes imposed to meet the cost of the late war. It is natural, therefore, for the taxpayer to be especially interested in means by which municipal expenditures may be more effectively controlled.

Effective administration of municipal finances requires a close co-ordination of revenues and expenditures. It is undesirable to secure revenues greater than are needed to carry on the operations which the city may properly perform for the welfare of its citizens. It is equally undesirable for the city to attempt to perform operations beyond its revenue possibilities. Of course by means of borrowings present costs may be paid from future revenues,

but the loans which should be made are dependent on revenue possibilities. This co-ordination, like the co-ordination of business revenues and expenditures, requires careful planning. When this planning is done in a systematic way it results in budget-making. A municipal budget is a statement of the estimated revenues and estimated expenditures of a city, for a certain period of time, set forth in such a form, and supported by such data, as to show its financial needs and revenue possibilities. It is a primary need for controlling of revenues and expenditures. Such a budget to be effective presupposes three things: (1) a definite and accountable organization for the administration of municipal affairs; (2) a system of accounts so maintained that they will serve as a basis for holding the organization accountable; (3) a budget prepared in such form that it will represent a system of future accounts in terms of organization responsibility.

Most cities have been lacking in all three of these requisites. In recent years some progress has been made in the development of a more effective organization for the control of municipal affairs. Progress has also been made in the establishment of more useful systems of municipal accounts. A considerable body of literature has been prepared dealing with these two phases of municipal administration. Much less progress has been made in the development of municipal budgets and practically no literature has

been published on this subject. We have had much discussion of national and state budgets but we have had little discussion of the method by which a city may budget its revenues and expenditures.

Professor Taylor's discussion of this subject is extremely timely, therefore, for it comes at a time when there is a crying need for a reduction in municipal expenditures to keep pace with the reduction which has been brought about in national expenditures and to some extent in expenditures of state governments. Professor Taylor has seen the purpose of municipal budget-making in its broadest aspects and has seen the need for the correlation of the budget with municipal policies and an effective municipal organization which is controlled through a comprehensive accounting system.

His discussion of this subject is based on an extensive investigation of the methods now employed by a number of the more progressive cities of the United States and he also outlines the developments which he thinks should grow out of the present methods. This book, therefore, should be of use not only to those who are engaged in governmental administration and to students of government, but it should also be of value to the taxpayer who is interested in obtaining knowledge of how municipal expenditures may be controlled and consequently municipal taxes reduced.

It is only by means of educating the general pub-

lic that it will ever be possible to exert the necessary pressure to force those responsible for governmental administration to exercise proper control of expenditures. This book should render a distinct service toward this end.

J. O. McKinsey

PREFACE

Within the last decade, a strenuous effort has been made on the part of municipalities, bureaus of municipal research, institutes of government research, civic organizations, and interested individuals to devise some scheme whereby the governments of our American political divisions might be more effectively administered. Considerable progress has been made in national and state governments in the use of the budget as an aid in administration. Municipalities have recognized the value of adopting a program for a future period, and following it in so far as conditions permit.

It has seemed to the writer that a study of the practice in budget-making in a number of our leading American cities might lead to some interesting conclusions respecting the best procedure to follow in a given municipality, dependent upon its size, form of government, and local restrictions. This study was commenced early in 1922 by a consideration of the literature on the subject of municipal budget-making. The literature was found to be rather meager. The writer had the privilege during the summer of that year of working with the Bureau of Municipal Research in New York City. A short time before, the Bureau had sent out questionnaires respecting the budget to about

seventy-five cities and towns throughout the United States. The list was made up of the following:

Akron, Ohio
Altoona, Pa.
Atlanta, Ga.
Baltimore, Md.
Boston, Mass.
Bridgeport, Conn.
Bristol, Va.
Cambridge, Mass.
Chicago, Ill.
Cincinnati, Ohio
Cleveland, Ohio
Dayton, Ohio
Denver, Colo.
Detroit, Mich.
Dubuque, Iowa
Glencoe, Ill.
Grand Rapids, Mich.
Hartford, Conn.
Indianapolis, Ind.
Jackson, Mich.
Kalamazoo, Mich.
Kansas City, Mo.
Los Angeles, Calif.
Louisville, Ky.
Lynn, Mass.
Milwaukee, Wis.
Minneapolis, Minn.
New Bedford, Mass.
New Orleans, La.
New York, N. Y.
Philadelphia, Pa.
Phoenix, Ariz.
Portland, Ore.
Providence, R. I.
Richmond, Va.
St. Louis, Mo.
St. Paul, Minn.
Salt Lake City, Utah
San Francisco, Calif.
San Jose, Calif.
Scranton, Pa.
Seattle, Wash.
Spokane, Wash.
Springfield, Mass.
Tacoma, Wash.

In forming the list, little consideration was taken of the size of the places. An effort was made to secure data from municipalities representing the various forms of city government. In this questionnaire, eighty-seven questions were asked respecting the budget. These were included under the following divisions:

1. Preparation of the budget
2. Hearings on the budget
3. Ratification of the budget
4. Appropriations
5. The budget as a controlling plan
6. Tax limitations
7. Current audit
8. The budget calendar
9. Form of government

About forty-six usable forms were returned carefully filled out, indicating that at least that many cities were using the budget as a means of control. The writer has checked much of this material first hand. He has made a conscientious effort to revise the material as changes have been made in the various cities from time to time. While in the East, the writer visited, besides New York City, the cities of Boston, Springfield, Syracuse, Buffalo, Cleveland, and Detroit. Later trips included the Ohio cities of Columbus, Dayton, and Cincinnati. In the summer of 1923, a western trip covered Milwaukee, Minneapolis, St. Paul, Portland, San Francisco, Los Angeles, and Denver.

In most places the data were gathered at the city halls, although in some localities the chambers of commerce furnished valuable information. In each case the writer made a special effort to see, first of all, the city auditor or comptroller, to state to him the purpose of his visit, and to solicit his co-operation. Invariably this co-operation was immediately forthcom-

ing. The writer is especially indebted to Mr. Craven, city auditor of Boston, to Auditor G. Funk, of Portland, Oregon, and to Deputy Auditor Daniel J. Leary, of San Francisco, for each personally put a great deal of time at the writer's disposal. In other cases, a member of the department, who often had actual charge of making the budget, was designated as the one most fitted to supply the requested information. In no case did the writer find the officials hesitant about permitting access to the records as soon as they were informed of the purpose of the visit.

The writer is especially indebted to Professors C. E. Merriam and J. O. McKinsey, of the University of Chicago; to the New York Bureau of Municipal Research, and notably to Mr. Buck, one of its members, who supplied him with materials and suggestions; and to the group of officials and employees in various cities throughout the country who so graciously gave him of their time and knowledge.

It is the earnest hope of the writer that all of the recent changes in municipal budgeting, in the United States, have been incorporated in this material.

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CHAPTER I

THE MEANING OF THE BUDGET

The term "budget," in its broadest sense and as it is now interpreted, means not only a request for appropriations and for authority to collect revenues with which to meet them, but also the information which may be submitted by the administration in support of these requests.

The word has been used in continental countries and in England for several years. Mayor-General Balfour, in a paper read before the Statistical Society of London, in 1866 said:

> England has applied it [the term "budget"] to the great leather bag which for a long time contained the documents presented to Parliament to explain the resources and the wants of the country. This new interpretation has also been adopted in our [French] language in imitation of the forms and expressions of the constitutional idioms of Great Britain, and only appeared for the first time in the acts of the French Government, in the decrees of the consuls, in the interval between the month of August 1802, and the month of April 1803, in which this term budget replaced the former estimate of receipts and expenditures.[1]

The notion abroad, then, seems to be that the term "budget" refers to an estimate of receipts and ex-

[1] *Journal of the Statistical Society*, XXIX, 325.

penditures. This interpretation of the word has carried over into the United States, and is the view supported by many of our writers of note. For example, the following definition has been given by Dr. Cleveland:

> A budget is a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive body to a representative body whose approval and authorization are necessary before the plan may be executed.[2]

For the purposes of this book, it seems best to favor the broader interpretation of the term, as set forth in the opening paragraph. That is, the budget has to do with requests for appropriations, together with any additional information to support them, and, as well, with the authority to collect revenues and to meet the appropriations. The budget is concerned with expenditures and revenues, and, in American cities, it serves in the capacity of controlling these two important items. The budget in administration is a supreme effort on the part of municipalities to introduce into a local government a program designed to check some of the graft and corruption for which our cities have been notorious. It is too early to allege that the budget has accomplished this, but it appears that the abuses have not been so flagrant as formerly, be the change due to this or other causes.

[2]F. A. Cleveland, "Evolution of the Budget Idea in the United States," *Annals*, LXII (November, 1915), 15–35.

It need scarcely be said that the various budgets in use in municipalities at the present time were not adopted outright in their present form. The idea, as applied to municipalities, has been developing, roughly, over a period of thirty years. Very little attention was given to the problem previous to the year 1900. Theretofore, and since, so it appears from readings and investigations, municipal budgets have passed through the following three stages:[3]

1. The simplest form is known as the bare tax levy. Thus a portion of the tax levy was apportioned to various funds in accordance with rates fixed by law.

2. The second step is a development in the direction of detailed estimates. There is, however, no legal significance attached to the detailed estimates.

3. The third stage is marked by detailed appropriations, estimates of work to be done forming the basis.

As was to have been expected, in the present study there were found decided differences of opinion in respect to the form and content of the budget. No two American cities are entirely in accord as to what constitutes a budget. The present time appears to be a transition period, and American municipal budgets are still in the third stage of evolution. Constant change seems to be directing budgetary development

[3]F. R. Clow, "A Comparative Study of the Administration of City Finances in the United States," *Publications of the American Economic Association,* November, 1901.

into new fields. Not long ago a writer on the subject pointed out this fact:

> The many changes which have taken place in recent years have tended to develop a new budget procedure which demands that we reconsider fundamental concepts. The budget is to be not merely an appropriation ordinance, but an instrument and process of government. As an instrument, it is a means of getting before the representative body which has control of the purse, a plan for the execution of which funds are to be appropriated. As a process of government, it is a procedure to insure accountability for funds already granted, and for securing responsibility for a definite program of work to be undertaken in the future.[4]

Our study, then, has to do with budgets in the third stage of development. We shall think of the budget in its broad meaning—that is, both as a plan and as a process of government.

The treatment of the subject deals first with the budget as a means of control, that is, a device for more efficient municipal administration. If responsibility for the making of a budget be centralized, the program can be used to the best advantage. In order to facilitate the control function, it is important that standards, records, and reports be used as a basis. Thereafter, the material deals with the character and classification of the information and the presentation and revising of the estimates. The public is usually given an opportunity to express approval or disap-

[4] A. E. Marks, *Municipal Budget Making*, Baldwin Prize Essay, National Municipal League (1917). Unpublished.

proval of the purposes for which the taxes are being used. A chapter is devoted to this question. There are some final steps in the budget procedure, largely of a legislative nature, which are treated near the end of the book. Finally, conclusions are presented which are intended as an aid in municipal budget-making.

CHAPTER II

THE BUDGET AS A MEANS OF CONTROL

NEEDS FOR SCIENTIFIC METHODS IN CITY ADMINISTRATION

Not until recent years have the governmental organizations in the United States come to a realization of the significance of the budget as a means of control. The budget has been used both in state and municipal affairs, it is true, but more often as a guess at future expenditures than as a scientifically planned program. A change is coming about, particularly in municipal affairs. Municipalities are making a study of the sources from which city revenue is derived and the purposes for which city revenue is expended. In a well-organized municipal government, it becomes necessary to exercise control over both the raising and expending of money.

Within the last decade, the problem of financing city governments has been brought forcibly to the attention of the public. The Eighteenth Amendment removed one of the greatest sources of municipal revenue. The costs of city administration are constantly increasing. Cities must incur expenditures to maintain schools, hospitals, public works, parks, etc.; in addition, cities must plan for the future. All these activities demand taxation, the levying of fees and

fines, and, in many cases, borrowing. Citizens of a municipality require that city undertakings be carried on with the utmost efficiency and economy. The newly acquired interest of the public in government affairs, brought about by increased taxation, makes such a procedure imperative. This interest has become universal because the majority of people have to pay taxes in one form or another. Thus the result has been an enlightened public interest, one of the greatest factors which make for the success of the budget system. This interest, supplemented by definite plans conscientiously executed, should secure gradual improvement in the matter of municipal control.

Scores of cities throughout the country have adopted the budget system as a means of financial control. Financial control is one of many efficient methods; civil service, and careful hiring of labor and purchasing of material, are others. It is not intended to recommend the budget as a solution of all the ills of municipal government, but it does seem that a carefully worked-out budget which places considerable emphasis upon this control feature will assist materially in removing some of the graft and inefficiency which have made our cities notorious examples of badly managed political divisions.

Two kinds of control should be studied, internal and external. Internal control involves, first, control in the making of the budget, and, secondly, control in its execution. In the former case, the representative

body, which is usually given the authority to raise money and thereafter direct it into the proper channels, controls administrative officials by placing limitations upon their power to dispose of funds. In the latter case, the comptroller or any other individual in charge of finance is always in a position to check the authority of individuals making payments out of city funds. External control may be exercised by the electorate or by state action. This chapter deals in part with internal control in the making of the budget, and in part with external control. Chapter x deals with control in the execution of the budget.

RESPONSIBILITY IN BUDGET-MAKING. ASSISTANCE OF BUDGETARY STAFF

In many of the cities where the budget system is used, the budget is often prepared by a board of estimate, which is composed of administrative heads. Sometimes the budget is prepared by a committee of the council. In cities where the commission form of government is used, the members of the commission, acting as administrators, prepare it. In the larger number of cities, the mayor formulates the budget plan. Three types of budget authorities have been suggested: (*a*) the legislative type, which is composed of the legislative body or its agents; (*b*) the board type, composed of legislative and administrative officers; (*c*) the executive type, consisting of the chief executive.

A number of leading cities make use of the legisla-

tive method in setting up a budget. In Chicago, the comptroller prepares the estimates and submits them to the finance committee of the council for approval. This committee revises and makes recommendations before the plan is forwarded to the council itself. The same procedure is followed by Atlanta, Providence, Los Angeles, and San Francisco.

The board type of budget-making authority is extensively used. It is usually composed of administrators and representatives of the city council. In New York City, the board of estimate is made up of the mayor, the comptroller, the president of the board of aldermen, and the five borough presidents, but the control resides in the first three. The board of aldermen has practically no control over the budget; the special ex officio board of estimate and apportionment is really in control. The mayor is the most influential of all the officers and he exercises executive control. In New York City, under a new law enacted by the state legislature in 1924, the board of estimate and apportionment becomes the upper house of the municipal assembly, and the board of aldermen becomes the lower house. Each house can initiate bills. This changes the status of the board of estimate and apportionment, but this board still continues to prepare the city budget. Baltimore has a larger board than does New York City. This board is made up of the mayor, the city solicitor, the comptroller, and the president of the board of public improvement. Milwaukee, St. Paul, Minneapolis, Rochester, Hartford,

and Syracuse really belong to the board type. Of the commission cities, Buffalo, Newark, New Orleans, Portland, Memphis, and Dallas use boards or commissions composed of from five to seven members.

The executive type of budgetary procedure makes the mayor responsible for the budget. This is known as the centralized mayor or manager form of government. Since the mayor is held responsible, he must formulate the plans and see that they are effectively and efficiently carried out. Among the larger cities, Denver and Toledo are good examples of this type; among the smaller cities, Grand Rapids, Akron, Dayton, and Houston. To some extent the mayor is held responsible for the preparation of the budget in Boston, Philadelphia, Detroit, and other cities. This type is favored by many writers.

The mayor, or the commissioner of finance in commission cities, should be responsible for the budget. When the auditors or comptrollers are elected, there is some justification for their being held responsible; never, when they are appointed. Even if elected, there is some question as to whether or not the auditor should participate in planning a municipality's expenditures. The comptroller, if a city have one elected, is the better one of the two to handle the budget.

Whoever is responsible for the budget should have free access to the accounting records. No reliable estimates can be made if the budget is made with no consideration of records of the past and plans for the

future. The present yearly budget serves to connect the past with the future, and consequently much of its content is based on previous experience. It follows, therefore, that a reliable and efficient accounting and reporting system must be evolved in order to supply this information. A capable, well-organized accounting department should analyze and compile facts in such a manner that those in control of the budgetary program may be kept in close touch with the trend of governmental affairs.

The person responsible for the budget should have the assistance of a budget staff. A budget staff, dependent upon the accounting staff for its information, can be efficient only when it possesses the following characteristics:

1. It should be trained. That is, the staff should have some knowledge of statistics and accounting, and a sense of the value of comparative data.

2. It should be permanent. Since experience is of primary importance in preparing budgetary information, the staff should remain intact as far as possible.

3. The staff should have free access to all information which may be necessary in its work. The individuals who are making the estimates should co-operate with the departments, and especially with the accounting department, if they hope to obtain the most satisfactory results.

Unfortunately, little has been done toward developing a budgetary staff. In the Ohio cities, Toledo and Dayton, the executive is assisted by the depart-

ment of finance, and, since most of the data necessary for budget-making may be found in the finance department, the arrangement is a happy one. The comptroller in Detroit is appointed by the mayor. He makes the estimates and submits them to the mayor, who revises and returns them to the comptroller, who, in turn, puts them in final form for submission by the mayor to the council. In Boston, the mayor is assisted by a budgetary commissioner and his staff. They prepare forms and collect information for use in making up the budget. New York City has a staff of examiners, statisticians, accountants, and engineers who serve under the supervision of a director of the budget, appointed by the mayor. The estimates are originally made by the departmental heads, who submit them to the director of the budget. Then examiners go over the data and report to the director, who, in turn, reports to the board of estimate and apportionment. In Chicago, the procedure is similar to that of New York City. A budgetary staff, under the direction of the finance committee of the city council, examines the data which have come from the department heads through the comptroller. The staff aids the committee in drafting and framing the appropriations ordinance.

There has been some effort on the part of cities to develop special budgetary staffs. In the questionnaire sent out, the question was asked: Is there a special force of experts and clerks to assist the budget authority? Akron, Altoona (Pennsylvania), Atlanta, Chi-

cago, Cincinnati, Dayton, Los Angeles, Milwaukee, Minneapolis, New York City, St. Paul, and Seattle replied that there was. Thirty cities stated that they had no such force. As a general thing, assistance is not secured from a special budgetary staff. Assistance usually comes from members of the clerical force who are transferred for the time being to make up and revise estimates. If the auditor has charge of the budget in a city, in some cases he assigns the budgetary work to a deputy, who devotes his full time to this task. This fact was forcibly impressed upon the writer in his investigations, when it was noted that the auditors, in most cases, directed him to their deputies whenever questions of detail arose. They usually stated, however, that years of experience had warranted them in placing the utmost confidence in their appointees. When a deputy has full charge of the budget-making, as has Chester C. Ashley under Auditor John S. Myers, in Los Angeles, he not infrequently does the whole job himself, although, if occasion arises, he may name assistants. The auditor in Portland, Oregon, has assigned the making of the budget to an assistant who, it is said, performs the job capably.

This is the best procedure, when a city has no need for a large budgetary staff. The individual to whom the work is assigned becomes a specialist in time, and if he be an accountant, as he often is, he is well equipped to correlate his work with accounting.

CONTROL IN THE MAKING OF THE BUDGET

Administrative control in the making of the budget should be in the hands of either the mayor or the comptroller. Some cities provide for budget initiation on the part of the chief financial officer, while others require that the mayor arrange the program. Since the comptroller has in his possession the information requisite for the budget, and is more likely to be versed as to its content, and since the mayor has many other and diverse duties to perform, it would appear that the former is the more logical person to collect the budgetary data. The chief financial officer is in a position to be familiar with the general financial policies of the administration, so that by consultation with the heads of departments he can co-ordinate revenues and expenditures to financial policies, thus effecting a well-planned procedure.

The executive in control of the budget may depend, in the first place, upon a budgetary staff directly under his control. For budgetary purposes, the various departmental heads should be directly responsible to the executive in charge of the budget. The departmental heads, therefore, can make their estimates with the help of the budgetary staff.

Each individual in charge of a department should be subjected to few restrictions. The organization of his department should be flexible. The department head should be allowed to prepare a work program for his departmental activities. It is true that the municipal work program, in its entirety, should be con-

sidered as an administrative program drafted after appropriations have been made by the city council. The departmental programs, however, should contain in advance some concept of the work to be done as a result of authorized expenditures. Too often descriptions of departmental plans are given verbally by department heads at budget hearings. Departmental activities should be formulated in specific terms. If a definite plan with respect to what is to be done, how it is to be done, and what it is to cost be adopted, and specific provision be made to carry it out before authority is granted to proceed with the work, there will be definiteness of control on the part of the department heads, the executive, and the appropriating authorities, in the matter of making the budget. Such a work program should originate with the heads of departments, and all deviations from the work program should be accounted for by these heads when they come before the appropriation authorities for allowances for the following years.

A municipal budget may serve as an instrument of negative or positive control. Mr. Goodnow is of the opinion that the budget operates as an instrument of negative control.[1] Officials of Springfield, Massachusetts, pointed out that negative control was exercised when the spending officers were not permitted to exceed a fixed limit of disbursements.[2] This limitation

[1] F. J. Goodnow, "Limits of Budgetary Control," *American Political Science Review,* VII Supp. (February, 1913), 68-77.

[2] *Report on Present Methods of Budget Making, etc.,* Springfield Bureau of Municipal Research, 1914.

served to keep down the tax, it was admitted, but it did not assist in the intelligent development of a program of public service; it did not require faithful custodianship over anything but cash; it did not serve as an incentive to a satisfactory discharge of trusteeship; it did not operate as a deterrent to a breach of official trust. In fact, the only thing it did was to limit the possibility of conversion of public funds. In an effort to get away from this negative control, officials of Springfield proposed a budget adapted to the exercise of positive control over such matters as policy, efficiency in management, economy in purchasing, etc. They suggested that positive control could be acquired by observing these essentials: a budget procedure, a form of appropriation bill, a work program, departmental estimates, standard classification, and accounts and reports.

These limitations amount to the injunction that those who have the power of expending may dispose of only a fixed amount of money. This condition is likely to be most unsatisfactory, and may lead to dishonesty and inefficiency, because the funds are commonly appropriated to the department which makes the most plausible case. On the other hand, the budget as a means of positive control requires mature deliberation, based upon information.

It was pointed out by Mr. Bruère that the new budget of New York City was negative in purpose; that is to say, it was inhibitory rather than direc-

tive.[3] He was not unmindful of the fact that, although negative in purpose, it worked a great many positive benefits. Mr. Bruère observed that the New York requirement demanded greater care on the part of the department heads in preparing annual estimates; it served the purpose of both the balance sheet and an operating statement in that it afforded an opportunity to compare results; and it prevented many unwise expenditures because it compelled detailed justification of requests in advance of authorization.

Before a representative body can do much toward positive control, it must have at hand a satisfactory system of accounts, statistical data suitable for reporting purposes, and, finally, standards by which the efficiency or inefficiency of a department's performances may be judged. These data are indispensable, because without them no legislative body can form any conclusions respecting services rendered, or the costs of services, in an organization wherein the individuals employed and the functions performed are numerous and diverse. Legislatures have exercised their control in various ways, such as requiring an independent audit and report on all transactions, providing for an independent judiciary to settle legal controversies, enabling representatives to inquire into requests for future grants, and compelling the executive to appear personally before them at the time he makes his requests for funds. When the executive is required openly to present his demands in

[3] *Annals*, LXII (November, 1915), 180.

this manner, the electorate is thus able to familiarize itself with the facts. The electorate is in a good position to exercise its control, in turn, by the subsequent use of the ballot in favor of, or opposed to, the executive or representatives.[4]

The following conditions are necessary for control in the making of a budget:

1. A single executive authority responsible for the making of the budget.

2. The assistance of department heads and budgetary staff in making the estimates.

3. Complete accounting records upon which to base the department estimates.

4. Use of standards in such activities as purchasing and administering personnel.

5. A work program for each department, each departmental plan to be a part of a complete administrative work program.

6. The encouragement of positive control rather than negative control.

7. A budget calendar so that the budget in preparation may progress according to schedule.

8. Public hearings at various stages so that taxpayers may present their views.

9. Control activities on the part of the legislative body.

Internal control in the matter of the budget is accomplished in the variety of ways enumerated. Ex-

[4]F. A. Cleveland, "Evolution of the Budget Idea in the United States," *Annals*, LXII (November, 1915), 19-20.

ternal control is sometimes exercised on the part of the electorate. Often, municipalities have not instituted budget reform of their own initiative. Since this by no means has been universal, the electorate in various states have assumed the responsibility of providing a budget system for cities either by statute or by constitutional amendment. They have passed acts requiring that their cities provide themselves with budgets. Oregon, in 1921, passed the following budget act:

> To require all municipal corporations as defined in this act to prepare and file estimates of proposed expenditures and probable receipts from all sources of revenue before making a tax levy; to prescribe the manner of preparing such estimates and for a public hearing upon them; to provide the manner in which levying boards shall make levies of taxes, etc.

Many states have planned further regulations upon city administration. Cities often resent the necessity of conforming with a given tax rate. Twenty-eight out of forty-six cities canvassed had some constitutional, legislative, or administrative limitations or restrictions on the city tax rate or levy. Cleveland had fifteen mills per thousand valuation, Kansas City ten mills, Milwaukee eight mills. In many cases the rate is fixed by the state. These limitations were either by charter or by state statute. It is true that the city expenditures or appropriations often exceeded the revenue available under the tax limitations. In fourteen places expenditures had exceeded rev-

enues, and in twenty-one this condition had never occurred. Whenever a deficit had appeared, the cities followed either of two practices: they either depended upon bonds, or shifted the burden to the following year.

Cities are not satisfied with this matter of negative control. Boston stated that it was inconvenient. Scranton, Seattle, and Springfield were of the opinion that there were no effects. The rapidly growing city of Detroit, with her vast public improvements and expansions, found it practically impossible to carry on under the existent restrictions. In Los Angeles, they were of the impression that the limitations led to conservative estimates. Many places opposed the restrictions, especially the Ohio towns. Dayton favored home rule in this matter. Cleveland and Cincinnati thought the whole thing highly demoralizing. In St. Paul, the question caused dissension; Salt Lake City noted that the limitations restricted public improvements; and, finally, Tacoma found it difficult to administer under the provisions.

LUMP-SUM AND SEGREGATED BUDGETS

The use of the segregated budget instead of the lump-sum budget as a means of control is of such importance that it will be necessary to consider it in detail. There are several questions involved in the discussion of the two kinds of budget. Among these are the degree of itemization of the budget, the control of the appropriation officers or authority over

the acts of the spending officers, the kind of provisions binding administrators, and, finally, the type of act that will secure the most efficient and economical administration.

Fifteen to twenty years ago, at a time when there was considerable investigation into the affairs of American cities, it was found that large lump sums were placed at the disposal of administrative officers over whom there was little if any control. During that time, the budget had been divided into several broad general heads, such as an amount for salaries, or for supplies and equipment, etc. The following extracts will illustrate the system used:

From the Philadelphia budget for 1911:

Postage, ice, files, incidentals, meals, repairs, advertising, loans, and entertainment of city and visiting officials . . . . $25,000.

Rent, postage, horse keep and miscellaneous expense in survey districts . . . . $25,000.

Or an item from the Chicago budget of 1909:

For repairs and renewals of wagons and harness, replacement and keep of live stock, identification, police telegraph expenses, tents, repairs, renewals of equipment, hospital service, printing and stationery, secret service, light and heat, 25 more horses for mounted police, and for repair of Hyde Park station; also other miscellaneous expenses . . . . $205,000.

When the public became aware of this unsatisfactory plan of appropriation, it was prepared to support any effort to curb the graft and inefficiency in the public service which were made possible by this

method. A new proposal provided for itemization as a means of curtailing unauthorized expenditures. Instead of a lump sum, for example, of $59,400 for the operation of police wagons in the department for the protection of life and property, the arrangement shown in Table I was used:

TABLE I

Operation of Police Patrol Wagons

Personal service	
Permanent salaries	$49,000
Contractual services	
Repair of autos	3,000
Other contractual services	100
Materials and supplies	
Gasoline	6,000
Lubricants	400
Metal products	300
Rubber auto tires	400
Other materials and supplies	200
Total	$59,400

The tendency was away from lump-sum appropriations toward the segregated budget. This new practice had some merit, to be sure, but it soon proved of too great rigidity to be of much value. It curbed the inefficient administrator, but at the same time it served as a handicap to the individual who was anxious to make his department as highly efficient as possible. In many cities it was found that the plan interfered with individual initiative, ingenuity, and responsibility and led to falsifying pay-

rolls in order to avoid depriving a city of services of which it was badly in need.

In general there are three types of budget:

1. The lump sum, in which there is little limitation upon the administration of the funds.

2. The highly segregated type, in which items are set forth in great detail.

3. The segregated or flexible type, in which provisions are made for transfers under the supervision of the mayor or manager, or between divisions, by action of the city council.

For many years, city councils provided for lump-sum appropriations. This freedom in deciding for what purpose the money should be expended resulted in administrative officers' devoting the funds to whatever purpose they saw fit. In addition it destroyed all sense of responsibility. The solution to the problem came in the shape of a demand for the segregated budget requiring that the appropriations be itemized. The segregated budget led to the amounts of the estimates being placed far above the sums required, in order that as much money as possible might be available. Once the funds were obtained, many departments would allow no unused portion to revert to the treasury, and then governmental costs increased.

It is believed by many that the lump-sum appropriations should be used for municipalities, that these should be supplemented by itemized schedules, and that transfers should be permitted under the direc-

tion of the mayor. That is, in the first place, let the lump-sum appropriations be made according to organization units, if necessary. The schedules which accompany these appropriations should be itemized to such an extent that responsibility will be obtained without destroying initiative and without leading to rigidity. The latter elements would be eliminated if transfers are permitted, as they should be.

If lump-sum appropriations are used and supported by schedules, the next question which arises is the classification to be used in setting up the items of appropriation under each organization unit. As an example, lump-sum appropriations could be made for current expenses, for fixed charges, and for the acquisition of property. The lump-sum appropriation for current expenses could be supported by a schedule listing various items such as personal services, supplies and materials, etc., and requiring that the expenditures in respect to each should not exceed certain sums. Provision should be made for transfers in the case of current expenses and the acquisition of property, but there should be no transfers in the case of fixed charges, since the nature of the charges makes this unnecessary. If deemed advisable, further classifications and limitations might be made under such items as personal services, and supplies and materials, but care should be exercised that this is not carried to a marked degree. Chicago makes its appropriations as shown in Table II, using detailed schedules indicating the amounts under each item.

For the sake of brevity, the schedules are not given here.

TABLE II

APPROPRIATION FOR 1922*

	Appropriation	Per Cent
Corporate Expense:		
Administrative	$ 1,354,161	1.09
Legislative	489,970	.40
Investment committees	785,144	.64
Judicial and legal	2,239,634	1.82
Interest and bond redemption	9,580,760	7.80
Election	900,760	.73
Public safety	17,253,776	14.05
Health and sanitation	8,628,744	7.03
Public works	8,366,073	6.81
Inspection	539,002	.44
Local improvement	1,668,673	1.36
Water	11,988,003	9.76
Library	1,412,500	1.15
Schools	52,600,000	42.84
Pensions	5,005,000	4.08
	$122,798,936	100.00

* From material compiled by Mr. Rex, of the Chicago Municipal Library.

In 1909 the segregated budget was adopted in New York City. In 1910 it was adopted by the finance committee of the city council in Chicago. It has been widely adopted in considerable detail by most of our large cities. The chief difficulty has been an effort to administer it properly. Just as soon as such a budget is poorly administered, it loses all of its effect and is as unsatisfactory as the lump-sum budget—in fact, that is what it really becomes. As

an example of the segregated budget, consider the budget of Boston.

During his campaign, the mayor had advocated the use of the segregated budget. In his inaugural he had stated that the methods of operation of the budget had curtailed its benefits to the city. He pointed out that even though it was necessary to provide for unforeseen contingencies, there had been altogether too many transfers, and that these should have been reduced to a minimum. Furthermore, he was of the opinion that the segregated budget of Boston had not realized its possibilities, first, because the city charter required that the mayor should compile and send the budget to the city council within thirty days after his inauguration, which was too soon, and secondly, because the city council had not been provided with expert assistance and guidance in its consideration of the various budget schedules. The mayor proposed as remedies that the department heads make careful preparation of estimates and that there be strict adherence to the policy of making no salary increases except in the budget itself.

In 1920 one of the councilmen in Boston pointed out the defects of the segregated budget,[5] namely, that during the previous year $120,528 apportioned for salaries and wages of men employed in the city service was not used for the purpose for which it was appropriated, but was turned from the schedule for salaries to one for supplies and materials. He called

[5]From the *Proceedings* of the city council, 1920.

attention to the fact that at the end of the fiscal year there was the unexpended sum of $73,181 left in the same department, which sum reverted to the city treasury.

It appears that when the money reverted to the city treasury, it went into a reserve fund at the end of the year, and the mayor could then use it for any purpose he wished. The councilman stated further that if transfers were allowed to continue indiscriminately, it would break down what little good existed in the budget. He had reference particularly to the $120,528 which had been transferred the previous year. He attributed a great part of the waste and inefficiency in the city to the fact that the city departments were permitted at the beginning of the fiscal year to have a greater sum of money than their requirements demanded.

The chief fault in the working out of the segregated budget in Boston was expressed at the same time by another councilman. He pointed out that if any transfers were asked for before the first of December, the request was placed before the city council for sanction; if the transfer were called for after the first of December, the matter rested entirely in the hands of the mayor and the city auditor. Thus, if the mayor believed that he was justified in making a transfer, and saw fit so to do, he could wait until after the first of December and put in every item that had been stricken out. As a matter of fact, the councilman believed that charter provisions permitted the

mayor to make the transfers before the first of December, and that therefore the fault did not lie with the segregated budget itself, but with the city charter.

In New York City the early practice of granting lump-sum appropriations has gradually been abandoned, and the segregated budget has been substituted in its place, but since 1913 there has been a decided swing back from a high degree of segregation. In that city two lines of segregation have been followed: (*a*) by functions, and (*b*) by the kind of thing to be purchased, that is, equipment, materials and supplies, personal service, etc. According to Comptroller Prendergast, two other devices were adopted in order to give the board of estimate and apportionment greater control over the administration of the budget and to prevent waste and extravagance. One of these was the use of salary schedules as a part of each appropriation for personal services. The number of positions and the salaries pertaining to each were fixed, and there could be no increase without action on the part of the board of estimate and apportionment. Another device prevented transfers from appropriations other than personal service to appropriations for personal service or vice versa.

Comptroller Prendergast attributed a saving of from two to four millions of dollars from 1909 to 1915 in New York City to the use of these devices in combination with the segregated budget. The sav-

ings were due to the prevention of unauthorized increases in salaries and other wastes, and to the reduction of successive years' appropriations in departments where increases were not mandatory.[6]

The segregated budget is by no means universally used. There are objections to the segregated plan, as has been shown, and it would seem that in small localities the lump-sum method might prove as effective. There seems to be no general opposition to the segregated budget itself; the difficulty is entirely in the method of administration. For example, charter limitations, such as in Boston, or too liberal transfers will ruin the effectiveness of the plan. In determining the type of budget to be used, the object and end of city government must be borne in mind. Cities are organized to render a public service, and the plan should be used which will allow the greater amount of administrative responsibility and discretion. The segregated budget admits of the former and the lump sum of the latter. The former is the more important. There are, therefore, greater possibilities in the segregated budget with allowance for transfers.

[6]Comptroller W. A. Prendergast, "New Municipal Finance," address before the Sixth Conference of Mayors of the State of New York (1915), pp. 4–5.

CHAPTER III

USE OF STANDARDS, REPORTS, AND RECORDS IN BUDGET-MAKING

STANDARDS IN PERSONNEL

Mr. Eggleston believes that no expedient for controlling the finances of a city has been found more satisfactory than a properly made budget.[1] There can be no basis for a good budget unless there be sound administration. The great problems of municipal administration have to do particularly with the matters of employment, purchasing, and accounting. In view of the fact that the greater part of the expenditures of a city are for services and materials, these phases will be treated first. It is recognized, however, that sound employment and purchasing standards are of no greater importance than are reliable municipal accounts.

Little has been done in the field of personnel in municipalities. Municipalities should profit by the experiences of commercial enterprises. One of the greatest faults with the majority of our municipal undertakings is the fact that responsibility for the various municipal activities is wholly lacking or else is so ineffective that its presence is never noticed. Heretofore, a great portion of our municipal hiring

[1]D. C. Eggleston, *Municipal Accounting*, p. 54.

has been done by the heads of departments. Commonly the other duties of departmental officers are sufficient to require their whole time, so that the matter of hiring has received little attention or consideration. Frequently departmental heads know little or nothing about the requirements of the job, have never given any consideration to job analysis, and hence are in no position to engage the most promising material.

It would seem at least that the large municipalities should have an individual or board to supervise personnel. The saving which has proved possible in the world of commerce could be attained in municipalities. There would be comparatively little additional expense. In small cities this function might be performed by the head of another department, but if the expense could be borne, it would be better for an individual personnel administrator to do it. Let us consider how this program might work out:

The chief function of the personnel administrator would be the hiring of city employees. Right here we meet a problem which is not present to a large degree in business. This is the question of the civil-service examination. It would be an easy matter for a boss to have control over the appointment of the personnel manager, were applicants chosen without examination. It is startling to note that as few as 180 of our cities have civil-service commissions, and these exist principally in New York, Ohio, and Penn-

[2]A. E. Buck, *Budget Making*, p. 177.

sylvania.[2] These commissions are usually composed of from three to five members, and their work is similar to the work of county, state, or federal commissions. According to one plan, it would be possible for these same commissions to operate under the direction of the personnel manager, just as in industries, the physical, oral, and written examinations of the applicants are under his supervision. This plan, of course, takes considerable power out of the hands of the personnel manager, since it makes his duty in respect to appointees merely perfunctory. He could act chiefly as adviser to the commission of which he was himself a member, giving advice as to the personality and characteristics of the prospective employees. There still remains to him the large duty of developing the labor market; making studies of the positions to be filled; looking after promotions, transfers, and increases in salaries, and, in general, creating a feeling of co-operation among the employees for the good of the public service.

There remains the important question of the method of selecting a personnel manager. He might be elected, as are many other of the municipal executives. Since the personnel manager has nothing to do with policy, his selection should not be left to the electorate. He might be appointed by the mayor, as are some of the executives of many of our municipalities. This method might prove more unsatisfactory than the former, in that it would give a political party complete control over all of the municipal em-

ployees. The position might be placed under the civil service. This appears more desirable than either of the above suggested plans, although this method might involve control by an outside influence, namely, a state civil-service commission. The plan in Boston and Massachusetts subjects many of the municipal employees to the will of the state with little control on the part of the city. The plan in New York City provides for some control on the part of the local civil service. Along this line, the feasibility of civil-service examinations for cities, under the control of the federal government, might be suggested. This plan would allow for the transfer of individuals from one city to another without the necessity of taking examinations in each locality. Most important of all, it would remove localization from the civil service, and this desirable condition could scarcely be attained unless the whole matter were in the hands of the federal government. All this would necessitate constitutional reform. It would mean, further, more control over the cities by state and federal authorities. Many cities feel that they are already deprived of too much local autonomy as it is. Consequently one can expect marked opposition to this proposal.

Finally, the personnel manager might be selected by the council or other responsible body. The method of his selection is of most importance, since it is imperative that the position be kept outside of the influence of politics. At any rate, there should be a central personnel agency for municipalities, whether

that agency be an individual, a civil-service commission, a department of finance, or other supervising agency.

The selection of the personnel manager and the character of his duties have been emphasized. He can accomplish little unless standards have been adopted in his department. It is difficult to form any definite conclusion in answer to the question asked the cities: Are the civil-service positions classified and salary rates standardized in the service? About seventeen cities answered affirmatively to the above question. Fourteen answered negatively. Baltimore stated that the civil service was in effect only a few months; Boston has reformed in most of the group positions only; Denver has standard rates in the fire and police departments; Los Angeles has civil-service classification and standard salaries in all but two departments; Providence has the former but not the latter, as has Richmond, Virginia. San Francisco, Tacoma, and Spokane report progress in this direction.

An efficient personnel service is of greater moment in our cities than it is in industries, because usually after a person comes into the employment of a city it is difficult to strike him from the municipal pay-roll, no matter how inefficient he may be. After faithful employees have demonstrated their ability, every effort should be used to retain them in the service. Training courses might be tried to equip the workers for their positions, and certainly there

ought to be methods of promotion, worked out to serve in retaining the interest and co-operation of employees.

STANDARDS IN PURCHASING

A method of centralized control over personnel has been suggested. Centralized purchasing is equally important. Heretofore the majority of municipalities have left the matter of purchasing to the various departments which are in need of services or materials. In this matter, cities have profited from the experiences of industrial enterprises and have learned of the savings to be made by centralized purchasing. As applied to municipalities, this plan would have all the advantages which exist in large-scale industries. Consider the vast amount of saving which might be effected by purchasing in large lots and at the best prices. To this may be added the saving in freight which is made by shipping in car lots. If the purchasing department were well planned, it would lead to the standardization of supplies and materials.

Most of the centralized purchasing in cities has been initiated since 1910. Only two cities, Chicago and Philadelphia, made use of a purchasing agent previous to that time, but during the last ten years about seventy-five of our leading cities have adopted this method of centralized purchasing. Cambridge, Hartford, Providence, Richmond, Scranton, and Tacoma reported in the negative. The further question was asked: Does the purchasing agent handle school purchases also? Twenty-nine answered that he did

not. Atlanta, Lynn, Milwaukee, Minneapolis, New Bedford, Philadelphia, and St. Paul replied that these were handled by the central agent. It appears that the cities believe that the school purchases should be under the control of the school board. This certainly should be permitted if the school boards set up their own budgets. That this is a common practice we shall see later.

Mr. Buck points out that three general types of organization for purchasing have been developed in our cities.[3]

1. In Cleveland, Toledo, Dayton, and Akron, the purchasing agency is a division of a department under a centralized administration.

2. In Philadelphia, Minneapolis, Los Angeles, Detroit, and Atlanta, the purchasing department is under the control of a single officer responsible to the mayor.

3. In New York, Baltimore, and Milwaukee, the authority to purchase is vested in boards composed of city or state officers serving in an ex officio capacity.

There is a very close relationship between centralized purchasing and the budget. Putting aside the question of economy, there is the possibility of accuracy and definiteness in the preparation of the estimates if the purchasing agency has adopted standard specifications. These specifications can be used from year to year by the department heads and

[3] *Op. cit.*, p. 181.

the budget-making authority and his staff, relative to the probable trend of prices, the expenditures for the various classes of goods, and the prospective needs of the different state agencies.

If purchasing were placed under the control of a central purchasing agency, it would lead to accurate record-keeping, since it centers the responsibility. The use of the stores record would be one of the measures which would lead to effective control. To indicate the possibilities of the above, we need only to point to the large savings which have already accrued to cities which have tried it. There is scarcely a city which has abandoned the proposition after adopting it. The proposal has been carried farther. For example, in some counties in California purchasing is done by a county agent who controls the buying not only for the county, but also for the cities located therein.

It need scarcely be said that the person in charge of purchasing must also be removed from the influence of politics. Adherence to a political party would lead to purchases from persons likewise affiliated, in which case competition would be removed, and consequently many of the advantages of centralized purchasing would be eliminated.

The advantages of centralized purchasing may be summarized as follows:[4]

A city gains from specialization in purchasing work; time and money are saved by placing the task

[4]H. Bruère, *The New City Government* (1913), pp. 206–7.

of purchasing in the hands of one rather than in the hands of the various department heads; there is a saving in original cost and freight rates by purchasing in large quantities; centralized purchasing promotes the establishment of standards for supplies and materials, and encourages uniform forms of requisitions, orders, invoices, and vouchers; large orders make city business attractive to wholesalers and manufacturers; centralized purchasing locates the responsibility for the quality and price of goods purchased.

From the point of view of budget-making, one can see the advantages that would be derived from centralized hiring and from centralized purchasing. Just as soon as the responsibility is fixed, there will be a careful check upon the services or materials involved, and, finally, the adoption of standards. A wage scale put into effect by a personnel manager would enable a department head to enumerate specifically the items for budgetary purposes. Lately, some good material has been written upon this subject, dealing largely with the federal government, it is true, but applicable, nevertheless, to municipalities. These books have to do mainly with the question of standards.[5] Under the arrangement suggested, department heads could request the amount of materials desired and the cost of each item, in accordance with the standards set up by the purchasing department.

[5] A. W. Procter, *Principles of Public Personnel Administration;* L. Mayers, *Federal Service.*

There can be no doubt that a great deal is lost every year because of mismanagement in personnel and in purchasing. An accountant of national standing in the United States figures that vast sums are wasted annually in municipalities through official incapacity and inattention in the purchase of services, materials, and supplies.[6] He states that New York City alone purchases yearly about fifteen millions of supplies and materials, but that there is considerable laxity in securing wholesale rates and taking advantage of cash discounts. This condition of affairs, he points out, is due not only to lack of proper purchasing methods, but also to failure in securing the type of public servant who will guard the financial interests of the municipality.

USE OF REPORTS AND RECORDS IN BUDGET-MAKING

One cannot expect that standards will be adopted by the personnel or purchasing departments unless these departments secure the co-operation of the accounting department. Unless this condition exists, there will be few uniform accounts and uniform reports. In municipalities it has often been the accounting department which has brought about a reformation in the other divisions of city government. The process has been a slow one. Before 1900, practically nothing had been done toward a system of keeping accounts. Mayor Hoskins of Chicago said that before 1894 it was difficult to know the amount of resources and liabilities, and that overdrafts could

[6] W. B. Munro, *Government of American Cities*, p. 274.

not be detected by the comptroller with facility. About 1900 the accounting firm of Haskins and Sells investigated the methods of accounting in Chicago and published their findings in a pamphlet.[7] In general, there was chaos in the finances of most municipalities. Mr. Clow said at that time that the chief cause of this chaos was probably mere crudity, which explained likewise the imperfections in the work of audit and control. Most cities had no system of accounting, and no one in authority ever combined the ability and the will to instal one, or perhaps ever thought of installing one. The chief fault seems to have been due to the fact that little or no attention was given to the classification of expenditures and revenues, and consequently it was impossible to analyze information for budgetary purposes. When it was first realized that it was necessary to have some check upon the accounts of the municipality, the task was assigned to a treasurer, auditor, or comptroller, who was usually selected by the people and often did not have any qualifications to fit him for the position.[8] Unfortunately, still in many of our large cities the person in charge of the city books is selected by popular choice and as a result may be incompetent. The practice differs in the various cities that have been observed. Sixteen cities reported that the auditor, or comptroller as he is sometimes called, was selected by the people; eight that he was selected by

[7] Haskins and Sells, *Report* (1900).

[8] F. R. Clow, *City Finances in the United States*, p. 92.

the mayor; seven by the council or commission. It seems proper that under no circumstances should the city auditor be elected. He should be appointed by the mayor or commissioners, and because of his ability rather than his political affiliations.

The development of the profession of accountancy has done a great deal to reform the accounting methods of both industrial enterprises and municipal organizations. As an indication of the check which comptrollers and auditors are exercising over expenditures, it is interesting to note the replies to this question: Is each claim against the city audited before payment, by an authority independent of the treasurer? Forty cities answered in the affirmative. Two, Cleveland and Phoenix, Arizona, replied in the negative.

However, there is still chance for marked improvement in the accounting of municipal organizations. In cities, the criticism cannot be centered alone upon the systems installed; the confusion lies also in the method of administration, because the officials in power commonly know so little about the accounting tasks which they are required to perform.

The development of accounting in municipalities has followed the same general lines as in the realm of business. In general, the methods and subject matter of municipal accounting may be grouped under the following three heads:

1. A simple record of the amount of cash received and the amount of cash paid out.

2. The use of journals and ledgers in addition to the cash book, in which a record of the real accounts is kept by the use of the single entry. This method makes possible the preparation of a balance sheet.

3. The use of the double entry with a record of nominal, revenue, and expense accounts, which provides for an internal check and makes possible the preparation of a statement of profit and loss.

Nine years ago, Mr. Eggleston was of the opinion that the accounting systems of cities were for the most part primitive in form and belonged generally to the cash-book class.[9] In 1913 the men who were preparing material for the New York Bureau of Municipal Research asserted that not more than a half-dozen cities in the country had recognized the difference between a statement of cash receipts and cash disbursements and a statement of revenue and expense.[10] Conditions have changed to a decided degree in both commercial enterprises and municipalities. As soon as employees in large numbers were introduced into business and cities, it was necessary to have financial records grouped around proprietorship and relations of fidelity. Then, when ideas of efficiency and administration were introduced into organizations, it was seen that a record of assets and liabilities and of income and expense (in other

[9] *Op. cit.*, p. 29.

[10] New York Bureau of Municipal Research, *Handbook of Municipal Accounting*, prepared by Metz Fund, p. 4.

words, the use of the double entry) would make it possible to determine proprietorship, profit or loss, and the final distribution of surplus. Unfortunately, many of our municipalities are still on the basis of the cash book, and therefore keep no record of accounts of revenue accrued and expenses incurred. Mr. Oakey is of the opinion that by far the greater number still operate on the cash basis, and have not yet installed accounts for their assets and liabilities.[11] The above basis might be satisfactory as a method of recording the affairs of a city, assuming that the revenues were paid on the very day they were payable, were it not for the administrative need for operative accounts, which are necessary for efficient government. Now it is well known that cash accounts do not give operative results and that accurate current accounts of revenue and expense do give operative results; the reports of a municipality cannot be of any value as an aid in the administration of a city's affairs unless they contain records of operative accounts.

Those who contend for the cash-book schedules and reports do so on the ground that the business of a city is conducted on a cash basis. They are not supported in their position when it is observed that the collection of the revenues of a city is often six months to two years in arrears. Furthermore, no small part of a city's business is often done on a

[11]F. Oakey, *Principles of Government Accounting and Reporting*, p. 195.

credit basis, that is, payments are made out of funds in anticipation of future revenues. A municipality which possesses accrued revenues and operates on loans is certainly not on a cash basis. Others who contend for the cash-receipts-and-payments basis do so on the theory that the items overlapping at the beginning and end of each year will each offset the other. This is equivalent to saying that no allowance should be made for depreciation because depreciation will be offset by appreciation.

The fallacy in the above argument is apparent particularly when the purpose of a statement of expenses is borne in mind. The purpose of a statement of expenses is a comparison of costs; one does not reckon alone the expenses paid in cash; he considers all the expenses applicable to a certain period. Little improvement is made in a municipality which aims to pay all of its expenses at the end of a year, because there is no possibility of allocating expenses by months so that monthly costs can be computed. Revenue accrued is not the same as cash received; costs incurred are not the same as cash payments. The sooner cities realize this, the sooner will they be prepared to enter upon an efficient financial program.

This, then, is an absolute necessity for every municipality, no matter what may be its size: it must adopt the double entry, and record every transaction irrespective of amount. It must be able to make out financial statements showing its revenues and expenditures, in order that the activities of one

department may be compared with those of another, and in order, finally, that the operations of the municipality for one year may be compared with the operations of other years. Only in this way are a city's financial records of any value as an aid to administrative control.

In 1922, a Canadian practitioner lamented the fact that municipalities issued cash statements only, and these too much in detail.[12] He stated that it was sufficient to give total expenditures according to departments, such as fire, police, health, etc.; he emphasized the necessity of showing income and expenditures separately for capital and revenue, because merging the two would give no indication of the amount chargeable to each; he took a decided stand in favor of a municipal balance sheet wherein current and fixed assets were clearly shown as against liabilities for bonded or other indebtedness, and net worth in the capital or surplus account.

Cities are reluctant about changing from the cash-receipts-and-disbursements basis to the basis of accrued and deferred items. For years, Boston has operated upon the former basis, but, under the supervision of a man who has acted as both budget commissioner and city auditor, is now going from the old to the new method. From personal observation, it was found that where cities were operating under the old method, they were loath to admit its deficiencies.

[12]J. A. Grant, C.A. (Montreal), "Notes on Municipal Accounting," *Monetary Times*, July 14, 1922, p. 5.

In all cases, after considerable interrogation, the officials admitted that they would go about placing their accounting systems upon the basis of accrued and deferred items just as soon as they had the time and money at their disposal.

Mr. Clow says:

> One relic of primitive financiering which persists nearly everywhere is the separation of the city money into various funds, instead of throwing all the money into one balance in the treasury. . . . . The system takes its origin in the reluctance to depend upon a budget for a proper distribution of the revenues and upon the comptroller for the faithful execution of the budget.[13]

The adequacy or inadequacy of this method of financial control depends largely upon the way it is administered. If departments of a city receive fund appropriations, department heads may handle the funds as they see fit; for example, they can deposit them in any bank, and consequently a city might have its money scattered all over the municipality. This, of course, is undesirable, but there is scarcely ground for condemnation of this method, because it is this plan which is universally followed in handling the school situation. School boards or boards of education are commonly permitted to use the funds appropriated to them as they see fit, on the ground that a board of education is in a better position to judge the needs of the city schools than is the legislative body, which is concerned instead with administration.

[13] *Op. cit.*, p. 93.

Not only is a lack of uniformity in the preparation and classification of accounts for cities and in the treatment of the funds of cities existent, but also an important difference exists in the manner of closing the accounts at the end of the fiscal year. The time of the fiscal year is of some importance; most cities favor the calendar year, and in this respect are in accord with the federal government. One method of closing requires that the books be kept open until all of the revenues belonging to that year have been received and all of the expenses chargeable to that year have been recorded. The other method requires that the books be closed immediately at the conclusion of the fiscal year and that all accrued income or deferred expense be carried over to the following year. When the former plan is followed, the books are kept open from two weeks to six years after the close of the fiscal period. This, of course, is a relic of early municipal accounting and is a plan that has gradually gone out of favor. It is a method that has been replaced by the latter plan, which is widely used in commercial activities. There is an argument against closing the books promptly at the close of the fiscal year in the case of municipalities, namely, that many of the claims against the city will be deferred purposely to the ensuing year in order to discredit the following administration. Where a budget is carefully worked out, it is believed that this malpractice would be eliminated to a large extent. It is possible also that money might be left to the credit

of an appropriation at the end of a fiscal period which would be sufficient to offset all the claims that might be charged against the administration. Two practices are followed in respect to this condition: the money may or may not be left in that account for the next year. It appears, in this matter, that the cities are about evenly divided, in that some allow the balances to be continued while others permit them to lapse. It would seem that if budgetary control were carefully worked out, it would make little difference which method were followed, because the transactions of the department or municipality would have been checked from time to time by means of reports and inspection of accounts.

There is considerable difference of opinion among writers and practitioners as to what reports are necessary for the most efficient conduct of municipal affairs and for assistance in preparing and executing the budget. It seems that these reports should include the following at least:

1. A summary of financial statements
   - *a*) Current-account balance sheet
   - *b*) Capital-account balance sheet
   - *c*) Sinking-fund balance sheet
   - *d*) Trust- and special-fund balance sheets
   - *e*) Consolidated balance sheet
   - *f*) Surplus account
2. Summary estimates
   - *a*) Comparative summary of actual and estimated revenue
   - *b*) Comparative summary of actual and estimated expense

3. Schedules of supporting details
   a) Analysis of actual and estimated revenues
   b) Analysis of actual and estimated expenses by functions
   c) Analysis of actual and estimated expenses by objects

Of the various reports to be suggested, the balance sheet is of great importance. Usually when an accountant first thinks about a balance sheet for municipalities, he is of the opinion that it is absolutely essential. After some deliberation, he is very likely of the opinion that it is valueless. This is the attitude of many municipal accountants, and the city auditor of Boston may be mentioned as one. Others attach considerable significance to the balance sheet. The New York Bureau of Municipal Research recommends the use of a municipal balance sheet because without it the officers have no means of obtaining the information they need in administering the city's financial affairs, and the citizens have no means of learning the actual financial condition of their city.[14]

It is likely that this great difference of opinion exists because individuals are not thinking about the same thing. The general notion of a balance sheet is the capital-account balance sheet. Of the list of balance sheets, this is probably the least important, as will be shown presently. There can be little controversy respecting the remainder of the balance sheets

[14] *Recommendations of Bureau of Municipal Research* (New York).

enumerated above, as aids in budget-making. We shall consider them in the order given:[15]

a) It has become the practice among municipalities, as it is the practice of commercial enterprises, to place in the balance sheet all of the assets and all of the liabilities of a city. Frequently in a municipality the balance sheet has been divided into two parts, the one designated as a "current balance sheet" and the other as a "capital balance sheet." The former should be recognized as relating to the operations of the fiscal period immediately passing and should include such items as cash, taxes accrued, miscellaneous revenues accrued, stores, and work in progress. There is justification for placing stores and work in progress in this category, because in municipalities they are commonly not held for sale, but rather for conversion or consumption.

In the current balance sheet we may find such liabilities as warrants payable, vouchers payable, invoices payable, interest due, temporary loans matured and unmatured, and interest accrued but not yet due. It is not meant that some of these items may not occur in the capital balance sheet as well.

b) Capital assets are those required for permanent use and benefit and include such items as cash derived from proceeds of bond sales and from gifts to be applied to the acquisition of permanent properties, work in progress and chargeable to permanent properties, stores, lands, land betterments, buildings

[15] *Practical Accounting Methods*, Key Publishing Company.

and structures, equipment-fund cash and investments, etc. Capital liabilities are such as accounts payable, vouchers payable, warrants payable, and long-time loans.

There is considerable controversy as to whether items such as land, buildings, machinery, equipment, etc. should be listed, because, it is held, their value to a municipality cannot be measured in terms of cost or depreciated value or in any value expressed in dollars and cents. There is justification for their inclusion in the balance sheets of commercial enterprises, as a means of securing credit, for example, but no such reason exists in cities. It may be contended that a list of a municipality's permanent property is helpful to an executive, the legislature, and the public in that it indicates the value of properties to be passed on to posterity. It is doubtful whether this value can be approximately measured in dollars and cents. The measure of value of the permanent property of a municipality is, on the contrary, its capacity for service.

c) It has become the practice among many cities to set up a balance sheet relating to sinking-fund assets, liabilities, reserves, and supplies. In this report the items of cash, investments, and premiums on investments purchased will be placed upon the debit side; unclaimed interest, discount on investments purchased, reserves, and free surplus will be placed on the credit side. The separation of the various sinking funds is universally advocated; the reason

is quite apparent, because it is necessary to determine whether or not adequate provision has been made to retire bonded indebtedness in the case of retirement of each class of bonds. These can be assembled in the final report. Mr. Oakey has suggested that in support of the sinking-fund balance sheet there should be schedules showing (1) receipts, disbursements, and balances of the several sinking funds, with the amounts of securities on hand, maturity of loans, and the purposes for which created; (2) receipts and disbursements of the sinking-fund commissions during the year of operation, and (3) investments held by commissioners of the sinking fund at the end of the year of operation.[16]

d) Trust funds are of an entirely different nature from sinking funds. These former relate to various pension funds, intestate estates, legacies, etc., which cities are frequently called upon to administer. The amounts often apply to the benefit of private individuals, corporations, or designated governmental agencies. The municipal government is supposed to discharge its function as an agent, holding the property in trust, and it is not infrequent that the property accrues to the city. Funds held in trust, therefore, must be kept separate and distinct from funds held in ownership. On the debit side of the trust-fund balance sheet the available cash and investments are placed, and these are offset by the reserve for trust obligations, which is placed on the credit side.

[16] *Op. cit.*, p. 460.

c) Consolidated balance sheets are used in both commercial and municipal accounting. The practice in municipalities, as Mr. Oakey points out, affords opportunity for four different kinds of consolidation: (1) Consolidations into four groups: (*a*) current assets, liabilities, and reserves; (*b*) capital assets, liabilities, and reserves; (*c*) sinking-fund assets, liabilities, and reserves; (*d*) trust- and special-fund assets and liabilities. (2) The sinking fund is combined with the capital group, thus making three groups. (3) The two-group consolidated balance sheet, composed of (*a*) capital assets and liabilities, and (*b*) current assets and liabilities, in which the trust-fund assets and liabilities are either eliminated entirely or combined with the current assets and liabilities. (4) The complete-consolidation balance sheet, which brings together all of the assets of like character and all of the liabilities of a like character.[17]

In conformity with the treatment of this material, it is believed that the four-group classification is the most satisfactory.

The following is the consolidated balance sheet for the city of Los Angeles:

[17]Oakey, *op. cit.*, p. 242.

CONSOLIDATED BALANCE SHEET

June 30, 1922

CAPITAL FUNDS

Assets		*Liabilities*	
Cash	.....	Bonds outstanding	.....
Reserve (cash)	.....	Asses. cert. invest.	.....
		Res. for contract funds	.....
Advances from res.	.....	Tax levy, 1921–22	.....
Real estate and bldg.	.....	Delinquent tax	.....
Equipment	.....	Reserve	.....
Asses. certs.	.....	Loans from reserve	.....
Work in progress	.....	Surplus	.....
Revenues rec.	.....		
Co. tax collec. and assess.	.....		
Total	.....	Total	.....

CURRENT FUNDS

Cash	.....	Res. for spec. funds	.....
Unsecured personal prop. tax, 1922–23	.....	Res. open-market orders (general)	.....
		Per. prop. tax, 1922–23	.....
Total	.....	Total	.....

BOND REDEMPTION AND INTEREST

Cash		Res. for mat. bonds and coupons pres. for payment	.....
Bond redemp. and int.	.....		
Sinking funds	.....	Res. for retire. of bonded indebtedness	.....
	.....		
Sink. fund invest.	.....		
Total	.....	Total	.....

PUBLIC AND PRIVATE TRUST FUNDS

Cash	.....	Res. for trust obligat.	.....
Unclaimed demands	.....		
Total	.....	Total	.....

CONSOLIDATED BALANCE SHEET—*Continued*

LOCAL IMPROVEMENTS

Cash	.....	Res. for comple. of imp.	.....
Total	.....	Total	.....

MUNICIPAL IMPROVEMENTS—CAPITAL FUNDS

Dist. improve.	.....	Bonds outstanding	.....
Co. tax collec. and asses.	.....	Tax levy, 1921–22	.....
		Delinquent tax	.....
Total	.....	Total	.....

BOND REDEMPTION, INTEREST, AND SINKING FUNDS OF MUNICIPAL IMPROVEMENT DISTRICTS

Cash		Res. for matur. bonds	
Bond redemp. and int.	.....	and coupons not pres.	
Sinking funds	.....	for payment	.....
	.....	Res. for retire. of bonded	
Sink. fund invest.	.....	indebtedness	.....
Total	.....	Total	.....

RECAPITULATION

Assets		*Liabilities*
.....	Capital funds	.....
.....	Current funds	.....
.....	Bond redemption and interest	.....
.....	Public and private trust funds	.....
.....	Local improvements	.....
.....	Municipal improvements cap. funds	.....
.....	Bond redemption, interest, and sinking funds of municipal improvement districts	.....
.....	Grand total	.....

f) The term "surplus" in municipal accounting differs from the definition as used in commercial accounting. For our purposes it applies to the excess of income over expenditures whether the books are kept on a cash or accrual basis. Among the various cities there are several kinds of surplus accounts. There may be a surplus of special and trust funds, a capital surplus, a current surplus, or a consolidated surplus. If the assets and liabilities are segregated into groups in the balance sheet, the capital-surplus figure constitute information of little or no value. A current-surplus figure is of some value if there be no special expendable funds in existence. A consolidated surplus account serves to bring together the separate and distinct surplus accounts which exist for each fund and provides a connecting link between the balance sheet and the statement of operations.

Other reports might be mentioned as an aid in the making and execution of the budget, but it would seem that those considered are sufficient. One feels justified in saying that accounting is coming into its own in the municipal world. The means that executive and administrative authorities have developed for the exercise of control over irresponsible and incompetent department heads are now used by the latter themselves as a check upon the work for which they are responsible. Mr. Bruère believes that departments no longer need be compelled to adopt modern accounting methods, that it is no longer a part of the work of reform to urge them to make use of

cost records; he believes that the day of education in these things has passed. Department heads will voluntarily use these devices as a help to them in discharging their administrative responsibilities.[18]

In every municipality, provision should be made in the charter for the inspection of accounts. If an auditor or comptroller were in charge of the accounts, the right to inspect them whenever he desired would reside in him by virtue of his position, but the mayor and the council should be permitted to exercise the same prerogative. It is very likely that neither the mayor or the council would know anything about accounting, but the fact that the books are subject to their inspection would have a wholesome effect. Now if the heads of the departments were required to submit statements of their assets and liabilities and of their income and expenditures, either directly to their superior officer or to the comptroller himself, and if these reports were of frequent occurrence, these statements could be used by the comptroller for reports to the mayor, and from the mayor in turn to the council. Mr. Clow suggests:

> The simplest method of providing for this would be to have the comptroller inspect the accounts of all other officers and then let his accounts, which comprehend all the others, be in turn inspected by a committee of the council and verified by comparison with the reports sent to the council or the mayor directly from the departments.[19]

[18] H. Bruère, *Annals*, November, 1915, p. 186.

[19] *Op. cit.*, p. 98.

The writer does not agree entirely with this method. All accounts ought to be inspected first by the comptroller or auditor and then by an outside agency who understands accounting. The municipal books should be audited at frequent intervals by an unattached certified public accountant appointed by the council, if appointed by any municipal agency. It would be better perhaps if the accountant were appointed by some state agency, but this proposal brings in the matter of state control, which is not within the purpose of this book. The best plan would be to have the accountant chosen for yearly periods by some responsible city organization, say the chamber of commerce. No incumbent should be allowed to succeed himself. This proposal would afford an efficient check as often as was deemed necessary throughout the year, and would remove the position from the realm of politics. This suggestion was not received favorably by the Boston Chamber of Commerce.

A demand for an audit of claims against the municipality by some agency independent of the city organization is a reaction against the graft and inefficiency which have characterized city government. Investigation shows that forty out of forty-three cities make such an audit. In thirty-six the check is made by the city accountant, auditor, or comptroller, whatever he may be called. In four instances the check is made by a committee of the city council. In some instances the officer is selected by popular

vote, and in others by appointment of city council, mayor, or manager. Seventeen cities elect; five appoint by council; three appoint by city manager; one by the mayor. In two cases the mayor's appointment must be confirmed by the city council, and in one instance the mayor's nominee must be approved by the state civil-service commission.

After the reports have been prepared and certified by the accountant, it would be necessary for the comptroller or other financial officer to submit them to the council and the public for consideration. Many of the large cities in the United States do not submit any financial report whatever. Some of the cities publish the proceedings of the council, and the financial reports appear there. It would seem that the reports of a municipality should be of two kinds: there should be a detailed report by the comptroller to the city council and a very brief one to the general public. The publications of a municipality should differ in their content, also, in that the one for the council should consist of reports as well as proceedings; whereas that for the public consumption should contain mainly a statement of assets and liabilities and a statement of income and expenditures. These two reports for either purpose should be in the briefest possible form and supported by schedules which would enable interested readers to refer to the detailed information of the schedules should they so desire. Another purpose might be served in the brief statements set up as suggested, if they were ar-

ranged in comparative form indicating the addition of assets, the increased liabilities against the city, the increases in revenue derived from various sources, the increased indebtedness, the condition of funds, etc. In this way interested taxpayers could observe the changes in the city's financial condition.

Brief reports such as are suggested should be published in the newspapers just as reports from the leading banks are published at the present time. In addition, they might be published in leaflet form for distribution to the public. They should appear immediately at the close of the fiscal year, when the financial affairs of the municipality are fresh in the minds of the taxpayers. If cities fail to publish their reports until months or a year have elapsed, the force of this business-like procedure is largely destroyed.

It is unfortunate that taxpayers do not realize the advantage of urging upon their municipal administrators the necessity of conducting the affairs of a public corporation as carefully and systematically as the affairs of a private corporation. No doubt they know that a bond or debenture issued by the municipality is in effect a mortgage upon their property; that wise or unwise expenditures may eventually come out of their own pockets; yet they frequently show the utmost indifference toward these matters. A proper system for the conduct of a municipality's affairs in the hands of competent admin-

istrators, together with a periodical check by outside agencies, is an investment which will insure the taxpayers a fair return on their contribution, and will serve to lessen the risk of the improper alienation of their property.

CHAPTER IV

PROCEDURE IN BUDGET-MAKING

A consideration of the budget as a means of control, and the standards and reports necessary in the preparation of the budget, are of significance in a survey of the budget in the various cities of the United States. These should be supplemented by a consideration of the budget procedure which is followed by some of our representative cities. A main factor in the success or failure of the budget is the strength or weakness of the agencies on which the responsibility for the making of the budget lies. In a preceding chapter, the necessity for the exercise of control and responsibility in the making of the budget was pointed out; now we should study the devices to accomplish control and responsibility which have been adopted and followed in some of our leading municipalities. Control and responsibility may lie in the executive, the manager, or the legislature, or in a combination of these agencies. The treatment in this chapter is concerned not so much with these agencies as with the course that the budget takes as it passes from the initiating authority to the agency which gives it final approval. Some consideration, of necessity, must be given to the political and financial organizations involved in making

the budget. The greater emphasis, however, will be placed upon the procedure followed in various municipalities.

In the city of Los Angeles, the council, auditor, treasurer, assessor, collector, city attorney, and the mayor are elected by the people. In accordance with the city charter, beginning on March 1 of each year the estimate forms are prepared under the supervision of the auditor's office. Duplicates of the various blanks are sent to each department where estimates of expenditures are made, and the forms are then returned to the auditor's office on or before April 30. The auditor's office must then scrutinize each item to see that the personal service is set up in accordance with the departmental ordinance in force; to see that last year's appropriations agree with those of the year preceding, and to determine, further, whether the actual expenditures are in accordance with the accounts as shown by the auditor's books. When this check is completed and the sheets are typewritten so that they may be uniform in character, the material is ready for the budget committee to start its review. Before the budget committee starts its review, however, an estimate of the revenue of the city for the coming year must be made. The city charter allows one dollar tax on each one hundred of assessed valuation for general purposes, and these data may be obtained from the tax-assessor. After the estimate of revenue has been made, the budget committee, which consists of the

finance committee, three members of the city council, the auditor or his chief deputy, and the head of the efficiency department, is ready for its work.

The meetings of the budget committee start as early in May as is convenient, and continue every day until the budget is completed. The budget must be placed in the hands of the council before July 1. When the first meeting of the budget committee has been called by the chairman, he designates the days upon which departments shall have a hearing. Upon the day set for any department, the head or members of the commission controlling the department appear and defend their requests and explain the necessity for them.

In Los Angeles, it takes from six to eight weeks to complete the task of making a budget. This is a very short time when it is borne in mind that in 1920 the requests were for more than eleven millions and the estimated revenue amounted to only eight and one-half millions. This necessitated the elimination of two and one-half millions in amounts ranging from five dollars to ten thousand dollars. Every item had to be scrutinized, and if the first survey did not bring the amount down to the required figure, the cutting was continued through a second and perhaps a third survey until the final result was obtained. Meanwhile the auditor's office had to keep a record of the amounts added or deducted so that it was in a position to inform the budget committee respecting the progress of the work. When the work is completed,

the budget is sent in the form of a resolution to the mayor and the city council for their acceptance or rejection.[1]

In the city of Los Angeles, the council is of the commission type, nine in number, and elected at large. It appears that the city has a fairly efficient system of reporting, and from these reports the budget is made up first by the auditor and then by the budget committee, of which he is a member. According to Deputy Auditor C. C. Ashley, the mayor does not take a part in the making of the budget, but he must approve it unless the council passes it over his head. Responsibility does not seem to be definitely located in Los Angeles; the type seems to be a conglomerate form which makes centralized responsibility impossible. In this respect it is defective.

In Detroit, the people elect the mayor, the treasurer, and the common council. The comptroller is appointed by the mayor and has general supervision over the financial affairs of the city. He is obliged to maintain a complete set of books showing the financial condition of the city, listing the assets and liabilities, and the revenues and expenditures. He audits all of the city accounts and receives the estimates from the various departments and tabulates them for the purposes of the budget. It will be noticed that the comptroller is appointed by the mayor, and the treasurer is chosen by the people, and since

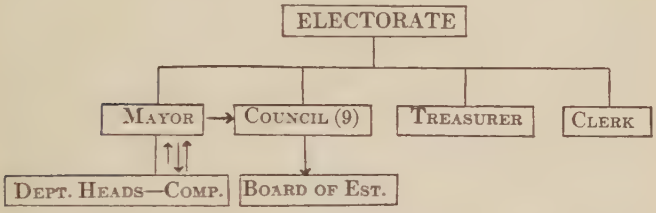
[1]From material gathered and loaned by Deputy Auditor C. C. Ashley of Los Angeles.

the latter also must keep a record of all taxes received and the amounts of receipts and expenditures, the one serves as a check upon the other. The budget-making body consists of the mayor and his appointees plus the common council.

As to the procedure in the budget-making in Detroit, the various officers, departments, commissions, and boards are required to send in their estimates to the comptroller's office for compilation before the fifteenth of January of each year. Before the fifteenth of February the comptroller must transmit a tabulation of the estimates, known as the budget, to the mayor; in turn, the mayor must complete his revision before the first of March and transmit the same to the comptroller for retabulation. The mayor may increase the budget, but not to exceed that authorized by law. The revised budget is retabulated by the comptroller and returned to the mayor before March 7; the mayor must transmit it to the common council before March 14. The council may then increase or decrease the amounts of the items, but may not increase the budget to exceed the amount authorized by law. All taxes levied must have the consent of the council. The mayor may veto the budget or any item. If the mayor disapproves any item or items, the council reconsiders only such item or items, and it may, if it sees fit, pass the whole budget or any of the items over the head of the mayor if seven or more of the nine councilmen vote for it. After the mayor and

council have acted upon the budget, the comptroller makes an itemized statement of the amounts to be raised by taxation, known as the tax statement, and a similar statement for the issue of bonds, the bond statement, and forwards them to the proper authority. The total amount of the tax statement shall be raised by taxation, but the total amount of the combined tax statement and bond statement shall not

CHART I



exceed 2 per cent of the assessed valuation of the city. After consideration by the council, the budget is sent to the board of estimates for approval concerning certain items as approved by law. All of these proceedings must be completed on or before May 2. The status of the agencies engaged in the making of the budget and the budget procedure may be shown as in Chart I.

If the comptroller in the city of Detroit performs the duties which are commonly performed by an auditor, as seems to be the case, there is no justification for his being appointed. He should be elected and placed upon the same administrative

level as other elective officers. As the Detroit plan stands, the check which exists between the comptroller and the treasurer is a good one. Furthermore, it does not seem that the board of estimate has enough functions to perform to warrant its existence.

The fiscal organization and the provisions regarding the budget are worked out on an extensive scale in New York City. The fiscal organization is composed of the board of aldermen, the mayor, the five borough presidents, and the comptroller, the latter of whom is head of the department of finance. In the matter of the budget, the president of the board has three votes, the mayor three, the five borough presidents seven, and the comptroller three; thus the three executives have a majority of the votes. Under the direction of the comptroller there are bureaus which have to do with such matters as collecting the city revenue, auditing, municipal investigation and statistics, accountancy, etc. Under the direction of the mayor is a board of estimate and apportionment, which has several committees, chief among which is that having to do with the making of the tax budget. The manner in which the budget procedure works in New York City may be seen from the following summary:

1. The preparation of the budget for the succeeding year begins in June and is completed by the end of December. The preliminary estimates are prepared by the heads of departments before August 1; one copy goes to the board of estimate and appor-

tionment and another to the board of aldermen. These estimates must be itemized according to the standard classification.

2. Examination of estimates is then made by the examining bureaus. The board of estimate's committee on the tax budget is assigned the task of preparing the budget. The committee works through a subcommittee which employs many examiners to conduct a detailed scrutiny of the estimates.

3. This is followed by preliminary hearings of department heads and examiners of the subcommittee. Differences of opinion between department heads and the examiners are heard and a preliminary settlement is made. The subcommittee is merely advisory.

4. Then there are hearings by the main committee on the tax budget. The main committee holds hearings on cases outside the jurisdiction of the subcommittee and others where the department head is dissatisfied, and draws up conclusions and recommendations of its own, together with the decisions of the subcommittee, in what is called a "tentative budget," which is submitted to the board of estimate as a whole.

5. Before the board of estimate finally adopts the budget, the tentative budget is published and taxpayers' hearings are held to give the public opportunity to offer suggestions. These hearings are held usually in the last week of October.

6. After the public hearings, the board makes a

final revision of the budget and the "proposed budget" is adopted not later than November 1. Within five days after its adoption by the board of estimate, the budget must be sent to the board of aldermen.

7. Upon the passage of the budget by the board of estimate, the mayor calls a special meeting of the board of aldermen. The board of aldermen have only twenty days to consider the budget; the budget is deemed to be finally adopted as submitted by the board of estimate. At this time, the budget is again published in the *City Record* (official daily). The budget as received by the board of aldermen is turned over to the finance committee, which makes an investigation on its own account, holding hearings and consulting with department heads. It finally draws up its recommendations in the form of a report read before the board of aldermen as a whole. The aldermen vote upon these recommendations. They may reduce or eliminate any item in the tax budget (except those fixed by law, those for payment of state taxes, or those providing for interest and payments on the city debt), but they cannot increase any appropriation, or insert any item, or change the conditions under which appropriations are to be spent.

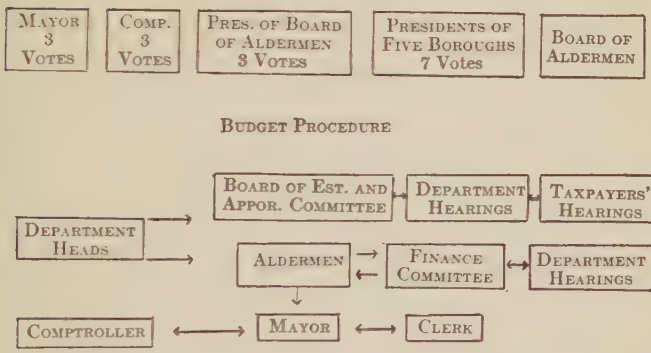
8. The mayor's veto. The budget as amended is passed upon by the mayor. If he exercises his power of veto, the items are reconsidered by the board of aldermen, who may pass their own recommendations over the mayor's veto by a three-fourths vote. The

mayor's veto operates to restore the original amount of the items as fixed by the board of estimate.

9. The budget is finally certified by the mayor, comptroller, and the city clerk prior to December 25, whereupon the items of the budget become appropriated to the several purposes named therein.

CHART II

BUDGET ORGANIZATION



10. On or before December 31 in each year, the budget must be filed in the office of the comptroller and published in the *City Record*.

This information may be shown graphically as in Chart II.

After studying the material respecting New York City, it seems to be worth while to point out the following characteristics of the plan: The budget estimates are made on uniform schedules, show-

ing information in detail in order that there may be a basis for deciding the amounts which should be apportioned to each purpose or function; the budget estimates are made some time in advance so that there is time sufficient for a careful consideration by the proper authorities; classifications are adopted which are adhered to from year to year; provision is made for a tentative budget and for public hearings thereon; use is made of expense and liability accounts, unit costs, central control, time reports, pay-roll classifications, etc.; there is an attempt to administer the budget for the purposes and functions for which the appropriations were made. The devices used by the city of New York to assist in the matter of control are to be considered in chapter x under the execution of the budget.

It is possible to set forth certain advantages of the system as worked out in New York City: Salaries and wage appropriations cannot be transferred to other uses, nor can appropriations for other purposes be diverted to salaries and wages; it is possible to compare estimated expenditures with actual expenditures; the uniform system of accounting makes it possible to compare expenditures for the same purpose from year to year; it is possible to distinguish expenditures from current revenue, from expenditures of revenue from other sources, such as from bonds; the method gives satisfactory control over appropriations; the public is kept well informed

as to the purpose for which the city revenue is being expended.

The advantages that have just been pointed out are offset, in a measure, by certain disadvantages of the New York system: The control is so effectively worked out that it does not leave very much discretion to the heads of departments; a budget system of this kind requires a great deal of time and expense in order to carry it through; the classification used is likely to become too rigid and to defeat its own purpose.

In Chicago, the budget procedure initiates with the comptroller. On or about September 1, he writes a letter to all the department heads informing them that they should prepare estimates of their needs for the coming fiscal year. The estimates must be made out on special forms, supplied by the comptroller's office, and returned to him sometime between October 1 and 31. After the forms have been returned by the department heads, the comptroller's staff makes a study and survey of the requests, often consulting with the department heads respecting certain items in their estimates. A duplicate copy of the estimates is sent to the committee on finance. The departmental requests, the comptroller's recommendations, and such other information as budget appropriations, revised appropriations, and expenses of the previous year, estimated amount of revenue, amount necessary to meet the funded debt and interest obligations, etc., are submitted in

printed form to the city council before December 15.

The city council refers this material to the committee on finance, whose staff has been working up the copy furnished by the comptroller. The committee takes the budget in hand and returns it with its recommendations to the city council for passage. The council must act upon the budget before March 31.

In Philadelphia, the comptroller prepares the budget for each ensuing year from the monthly reports he receives from each department, and from any additional matter that they may offer. The budget must include the estimated receipts (not including taxes), the probable amount of money which will be borrowed, and the liabilities, together with the estimated expenditures. The receipts are to be estimated from the average of the receipts for the past three years.

The estimates are then turned over to the mayor, who submits this budget, together with any changes he cares to make, to the council on or before October 15, with a statement of the average amount of uncollected taxes for the past three years. The council must consider the budget in open session and, on or before December 15, adopt a definite financial program. They must accept the estimated receipts and liabilities from the mayor's report, but they are free to decide on the character and amount of expenditures. Any item which any department needs for the following year must be apportioned at one time,

to be valid. Any contract for which funds have not been appropriated, in part or in whole, is not valid.

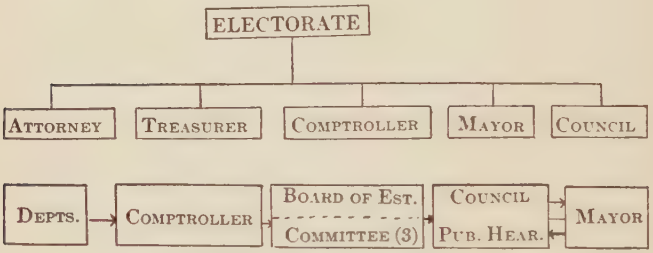
In Milwaukee, the budget, over which the common council has direct control, is made up in the following manner: Each department head submits his request for appropriations to conduct his department for the ensuing year, on forms furnished by the comptroller. After the comptroller has checked and tabulated these recommendations, they are then submitted to the board of estimates.

The board of estimates appoints a committee of three which considers the detailed problems. The questions involving the determination of policy are not discussed by this board. All sessions of the board of estimates are open to the public. The proposed budget is printed in the common-council proceedings and is submitted to the common council. The common council must hold at least one public hearing on the budget. After the budget has been adopted by the council, it goes to the mayor for his approval. The mayor may veto any item in the budget. The council may pass the vetoed item by a two-thirds vote or offer to submit an item in place of it, which must go to the mayor for approval. The independent boards and commissions make up their own budgets, and neither the common council nor the board of estimates has any authority to amend the budget. Chart III shows these data in graphic form.

The chief criticism of the system as used in Milwaukee is the fact that there is so much scattered

authority. There is no justification for control over the budget other than that of the centralized authority. In many cities the school budget is made up by the school authorities with little or no supervision on the part of the city council, but where independent boards and commissions make up their own budgets and neither the common council nor the board of estimates has any authority to amend the budgets,

CHART III

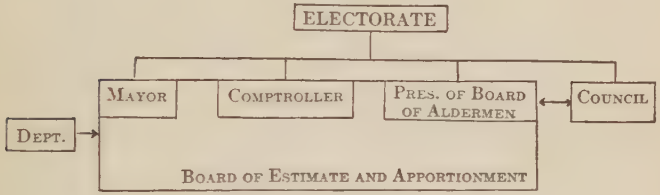


it is difficult to locate responsibility and exercise control over the operations of the municipality.

In St. Louis, the board of estimates and apportionment, composed of the mayor, the comptroller, and the president of the board of aldermen, is responsible for the formation of the budget. The head of every department and office furnishes to this board a statement of receipts and expenditures for the past year, including a comparative estimate of such matters for the ensuing year. At the beginning of its annual session, the council receives from the board of

estimates and apportionment a bill appropriating the amounts deemed necessary for the various departments and offices. The council proceeds to the consideration of such bills from day to day until they are finally acted upon. Appropriations must be specific, detailed, and segregated according to the functions or kinds of work for which the money is appropriated. All unexpended appropriations must revert

CHART IV



to the fund or funds from which they were made. See Chart IV.

The St. Louis plan places the duty of making the budget in the hands of three elected officials. These three, who constitute the board of estimate and apportionment, are responsible for the success or failure of the budget plan. This is an example of executive-administrative responsibility rather than single executive or legislative.

Boston is subject to the procedure for budget-making prescribed by the state of Massachusetts. The law of the state requires that within sixty days after the annual organization of any city gov-

ernment within the state, the mayor must submit the annual budget of current expenses to the city council. The budget must consist of an itemized and detailed statement of the money required, and the appropriations made by the city council must be in detail, setting forth the amounts to be expended for each particular purpose. The city council has the power to reduce or reject any item, but cannot increase any item, or the total of the budget, or number of items, without the approval of the mayor. The city officials and department heads must submit their estimates to the mayor, who, in turn, transmits the estimates to the city council.

When the fiscal year expires before the regular appropriations have been made by the city councils in Massachusetts, the state law permits the various officers and department heads to incur liabilities chargeable against the next annual appropriation, provided their monthly liabilities do not exceed any one month's expenditures for the preceding year, and provided, further, that their monthly liabilities do not exceed one-twelfth of the estimated cost for the current year. No departments are allowed to exceed their appropriations except in cases of extreme emergency involving the health or safety of persons or property, and then only by a vote in cities of two-thirds of the members of the city council.

In Boston, all appropriations other than for school purposes originate with the mayor. Within thirty days of the beginning of the fiscal year, the

mayor submits the annual budget to the city council, and supplementary budgets from time to time, until the tax is fixed. It is the duty of the city council and county officials, when requested by the mayor, to submit forthwith, in such detail as he may require, estimates for the next fiscal year. These estimates are transmitted to the city council. The budget department is under the budget commissioner appointed by the mayor. The commissioner, under the direction of the mayor, prepares in segregated form annual and all supplementary budgets, to be submitted by the mayor to the city council.

The state of Massachusetts is a good example of strict control on the part of the state over the budget-making procedure in the various cities. While there are few who will condemn the requirement that all cities and towns of whatever size shall have a budget, there are many, especially those living in the municipalities of that state, who resent so much interference on the part of the central authority. This supervision makes it almost impossible for cities to adapt the budget to their own conditions and particular forms of government. Cities feel, also, that this budget matter is a local affair. Given this restraint, then, as exercised in the state of Massachusetts, Boston has attempted to carry out the idea with the results set forth in the previous chapter.

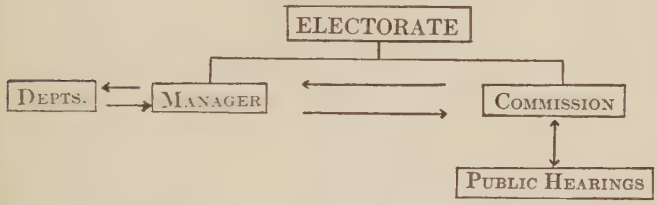
On the other hand, take the city-manager cities. In great part, the city-manager form of government

has been adopted in relatively small places. As a consequence, a city manager who is able to keep all the information respecting city plans and costs in his mind is likely to neglect a scientific form of budget. But lately, the city-manager form of municipal government is extending to large municipalities. This is particularly true in Ohio, wherein the city of Cleveland is operating under the manager form, and the city of Cincinnati voted in favor of the manager form late in 1924. Kansas City voted early in 1925 to adopt the same form of city government. The city manager in such large places has many greater responsibilities thrust upon him.

Since financial policy is essentially an executive problem, it appears that the idea of a budget in a city under the supervision of a manager would place the responsibility where it belongs, that is, with the manager, and thus make for better government. In manager cities, the budget estimates are submitted to the commission by the city manager. This is practically the same procedure which exists in cities which follow the older form of government, wherein the mayor submits the estimates to the city council. In Dayton, a commission city, the budget is prepared as in other cities governed in the same manner. Uniform sheets are sent out to the departments for the estimates. The manager goes over the estimates with the heads of the departments; the department head must supply him with definite data before he will recommend an increase to the commission. The

manager reduces the estimates so that they shall fall within the estimated revenues before he submits the budget to the commission. The commission then goes over the budget with the manager, receiving any explanations or recommendations he may have to offer. Minor alterations may be made after public hearings, but the budget is passed practically as the manager recommends. See Chart V.

CHART V



In commission cities where departmental heads make up the board of commissioners, not enough attention has been given to the matter of budgetary procedure. Under this form of city government, the legislative and administrative officials are the same, and consequently there is no great necessity for placing administrative restrictions upon appropriations. However, more care can readily be given to the preparation of detailed estimates. It appears that this very phase has been neglected by commission-governed cities.[2]

In a recent study of the city of New Orleans, Mr. Buck, of the New York Bureau of Municipal

[2]H. Bruère, *New City Government* (1913), pp. 171–204.

Research, pointed out that the clerk of the common council sent a letter to each spending agency, asking for estimates. From these estimates he then compiled the information for the commission, which was composed of public finance, public safety, and public property. The city used no standard classification of expenses such as is widely used, and the budget estimates were unclassified. From three to six public hearings were held, but very few interested citizens went, and no attempts were made with a budget exhibit. No published documents whatever were used except a brief appropriation ordinance. No attention was given to classification of positions or standard rates of compensation. In New Orleans, about two-thirds of the total budget was pay-roll. Appropriations were made in lump sums. In 1922, $600 was allowed for Jackson Square and $1,119,000 for the fire department. New Orleans did not itemize and restrict appropriations and transfers. Mr. Buck stated that lack of salary policy and central purchasing made classification by objects (personal service, supplies, materials, and equipment) highly desirable. The city had ten separate funds, one-half of which were unnecessary and not properly controlled. Special funds should be consolidated with general funds or else subjected to the control of the department of finance. Money from permits should not go to the mayor's charity fund, but to the city treasury. Mr. Buck noted that a judicial-expense fund was in the custody of the department of finance

and was controlled by the judges of the civil district court. A fund of this sort should be under the department of finance, and the common council should fix the number of members and salaries. The school board and the sewage-and-water board were outside the control of the commission council. In New Orleans, sixteen millions were spent annually, and only six millions were shown in the budget. Such, briefly, were some of the characteristics of the New Orleans procedure. Mr. Buck recommended: the adoption of a budget classification for expenditures, estimates, and accounting control; the adoption of uniform estimate blanks and the presentation of more complete data to the commission council for its guidance in the review and adoption of the budget; the preparation of a real budget document that gives a picture of the proposed expenses and the means of financing them, with complete supporting and detailed information.

From this detailed consideration of the budget procedure in various American cities, it should be possible to formulate a standard procedure, flexible to such a degree that it may be adapted to any municipality, whatever may be its size and organization. A possible procedure to be followed in the installation and operation of budgetary control in municipalities is suggested below:

1. Each department makes an estimate of its contemplated activities for the period and the amount of money it will need to carry these activi-

ties into effect. The manner in which these activities are stated depends entirely upon the function of the department. What, for example, will be the needs of the personnel department? That estimate depends upon possible increases of salaries, the extension of the working force, etc. What municipal building is contemplated, demanding additional employees? The personnel department could gather this information from the building department. What additional materials must be purchased? The central purchasing department could estimate this by co-operating with the building department. Thus it is apparent that a great many of the estimates for budgetary purposes could be determined fairly accurately before the matter leaves the hands of the departmental heads.

2. The departmental heads then transmit their estimates to an executive in charge of the budgetary procedure. In many of the large cities this executive is known as the comptroller. He takes the departmental estimates and combines them into a proposed budget for the municipality, showing, in each case, the estimates of expenditures and revenues of the departments concerned. Assuming that a great deal of the budget-making is done by an executive who is very likely the comptroller, what courses of action may he be compelled to pursue? If the estimated expenditures should exceed the estimated revenue, he may take one of the following courses of action:

a) He may reduce the departmental expenditures. This process is relatively easy in municipali-

ties because the reduction of expenditures does not necessarily reduce the revenue, as might be the case in commercial enterprises where a reduction in the budget for advertising might reduce the revenue from sales. At this stage, the comptroller will need to confer with departmental heads in order to determine which items can bear a reduction. If a compromise is not reached, the comptroller may be compelled to resort to the second course:

b) He may secure additional revenue. This procedure is difficult because the comptroller can usually do no more than suggest the increase of the tax rates as a possible new source of revenue.

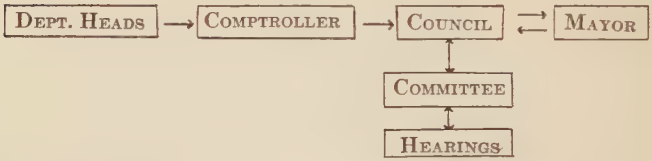
3. The proposed budget then passes into the hands of the municipal council or a committee composed of a few councilmen and executive heads. Unless the proposed budget passes into the hands of the mayor personally, he should see it when it is in the possession of the committee, in order to make proposals in accord with general administrative policies. At this stage, public hearings should be allowed, after which, upon approval of the committee, the preliminary budget becomes the working program for the period.

4. The council then acts upon the budget.

5. As soon as the budget is approved, copies should be sent to the various departments. Since the departments have committed themselves to a program, they should accordingly make plans to carry it through.

6. The departments should make periodical reports to the executive in charge of budget-making, comparing their estimated and actual performances.

CHART VI



In case revision may be necessary, the executive can confer with the committee regarding possible changes.

See Chart VI.

CHAPTER V

CHARACTER OF THE INFORMATION

ACCOUNTING AND THE CHARACTER OF THE INFORMATION

There is a great variety of information which must be taken into consideration in preparing the budget. The information which is immediately necessary for budget purposes should be supplemented by data which are important in carrying out the budget. First is a work program, present and proposed, which is designed to set forth what is being done and what officers think should be undertaken. In order to have the budget function as a work program, the preparation of the budget must refer not only to the kinds of things which are to be purchased with the funds provided, such as a list of positions and salaries of officers and civil servants, but also to the kinds of work to be done, such as inspection of sanitary conditions, number of patients to be treated in hospitals, amount of paving to be done, etc. A list of positions and salaries; a report on contracts and purchases, with details showing quantities, qualities, and prices paid; a report on ways and means of securing funds, whether by raising revenue or floating new loans; a statement showing cost in terms of public services rendered or results achieved,

are all parts of the budget program, but they lack any statement of the quantities of work to be performed as a result of authorized expenditures. These contemplated activities are commonly not formulated in written terms which might serve as a basis of control on the part of department heads over those under their supervision, or by the appropriating authorities over the various departments of the government, or by the mayor over the divisions under his control.

It has been suggested, therefore, that the budget be accompanied by a statement of functional activities in detail, showing what departments, boards, or commissions spent the previous year, what they are spending for the present year, and what they propose spending in the following year. For example, a health department might have its various functions divided into milk inspection, food inspection, sanitary inspection, bacteriological examination and research, and general administration. If the department be large, these functions might each constitute a bureau or division, but if the department be small, then a general work plan respecting each function will be sufficient. It is to be understood that information set up in this fashion is of administrative character and is not to be used as a basis of appropriations. Table III will illustrate the idea.

Now information of this nature must be compiled in considerable detail, and, furthermore, with considerable accuracy. It seems reasonable that the

gathering of all this information is a task for the accounting department, because the activities of this department should include not only the preparation of statements, but also the preparation of any data which will serve as a guide in administration.

TABLE III

Activities	Expenditures for Work		Expenditures—Work to Be Undertaken		Memoranda
	Done 1921–22	Under Way 1922–23	1923–24	1924–25	

The character of the information to be collected depends largely, of course, upon what the agency hopes to prove or disprove, and whether or not the proposal under consideration is an extension of an old policy or a new undertaking. If the former be the case, the committee can profit from the use of the municipality's records. For example, a report indicating the sources of city revenue set up in comparative form and extending over a period of years, leaving a column for the estimates, will show the possible increases or decreases which might be expected in relation to any of the items. A like form might be used in the case of expenditures. If a city proposes to undertake new activities, there is usually nothing of value which it can use from its own records or experiences, but it can make use of the records and experiences of other cities. This procedure

would be of double value if cities would adopt some form of uniform accounting. It would be of some assistance if they came to use the same accounting terminology. Why not use commercial accounting terminology instead of municipal accounting terminology? Why use "revenue" and "operating income" for the same thing? There have been some movements toward uniformity, but as yet they have had little effect. If one city cannot make use of the reports and records of other cities, it can profit from their policies and experiences in respect to the same subject. It does not follow, of course, that because one city fails in an undertaking, another city shall follow in its footsteps. So much depends upon the initiative and the financial backing supplied a municipality by its inhabitants. The important factor in considering the work to be done or undertaken is the desirability of correlating activities of expansion and new activities with the revenues that are to be supplied by the taxpayers.

The character of the budgetary information to be required depends, secondly, upon the department which is to be responsible for the task under consideration. What department or agency is to gather the information? Shall the health department gather its own data? Shall the fire department gather its own cost data? It may be that a department already in existence, such as the accounting department, can compile costs for all the municipal divisions, or it

may be necessary to organize a separate and distinct department for this particular duty. The important matter is to fix the responsibility, to prevent duplication of activities, and hence insure greater administrative efficiency.

The character of the information involves costs. The two most important elements are the costs of materials and the costs of labor. These may be estimated in the light of past experience, present conditions, and future possibilities. The information regarding past experience can be prepared in a most satisfactory manner by the accounting department, co-operating with the purchasing and personnel departments.

Finally, when the costs have been determined, how are they to be met? Are the proposed expenditures to be financed out of the revenue derived from taxation on real and personal property, licenses, fines, and fees, etc., or will it be necessary to meet the demands of the budget by borrowing money? The problem must be studied, whether it be a consideration of the condition of the treasury, or the issuance of bonds to meet the obligations. This matter will be treated under "revenue." We need only to note here that the character of the budget information depends upon the work to be done, the agency responsible for it, the cost of the work, and the methods of meeting that cost. These we shall consider in detail.

THE CHARACTER OF THE WORK TO BE DONE

In relation to the character of the work to be done, we have to bear in mind all of the important activities with which a city is concerned. To be sure, there are many activities which have to be carried on under any circumstances. Therefore, no matter what may be the size of the city, we are positive that the expense in connection with those activities must be incurred. Now the work to be done in any municipality either is of a type such as theretofore has been done, or is some new undertaking. If the work to be done is of the former type, then it seems that the character of the information is such as can be gathered from the records of the accounting department in the municipality. Of these we shall speak at greater length under "costs." If the undertaking is a new venture, then, as suggested above, the city can make use of the information which other municipalities might supply. For example, the policies which are used by some cities toward their park administration might be of some value. In this particular instance, any information which might be of value in the administration of parks would determine the character of the information to be gathered. This, too, we shall consider presently and to a greater extent under "costs."

THE AGENCY RESPONSIBLE FOR THE WORK

Of no less importance in determining the character of the information to be gathered is the matter

of the responsibility of the agency performing it. It appears from a survey of the new undertakings of municipalities that invariably whenever any new function is to be performed, some new agency must be appointed to carry it through. It may be that this is one reason why so many new activities are undertaken by a city. A new undertaking will involve many new appointments which will serve to satisfy the demands of a spoils system, which is likely to exist in the case of appointments of this kind. It may be the case that, instead of creating a new board or agency, the new duties may be performed by another department of the municipal government equally capable of carrying it through. In this way the expense of additional employees will be avoided, and it may be that, where the duties devolve upon others, the efficiency of those others may be recognized by additional pay. Therefore, of first importance is the question whether or not the new activity can be carried on by departments already in existence. If not, what is to be the nature and content of the new board or agency which is directed to carry on the new work? If a municipality has a large park system, is it better to have the city divided into sections and have a board or commission perform the duties in each section, or is it better to have the whole city under the jurisdiction of one department and responsible to one executive? The important matter is to have an agency which may be held responsible for everything which goes

on in the territory subject to its jurisdiction. Whether this agency be responsible to an executive or to the legislature is of little importance here; the important thing is that there be someone to check upon the manner in which the funds supplied by the taxpayers are being administered.

COST OF THE WORK

After the character of the work to be done has been determined, and the agency to be responsible for it has been selected, good administration requires that a careful estimate of costs be made. Until a few years ago, very little significance was attached to this factor in municipalities, even though rapid strides were being made in the commercial world. It is safe to say that at the present time in most well-ordered industrial ventures some kind of cost system has been set up which will enable the manufacturers to determine the costs which have been incurred or are to be incurred in the making of their goods. This has been done to some degree particularly in the larger cities, and it has been found invaluable in deciding whether or not enough benefit is being derived from the money which is being expended.

In attempting to arrive at some system of costs in cities, it would perhaps be well at the outset to bear in mind that costs are really divisible into those which are incurred for services and those which are incurred for objects. Both services and objects in

municipalities constitute a great variety, and it is important that they be accounted for to the general public. The method which has come into vogue is that which is known as per capita cost, that is, the average cost which has been incurred in respect to all the individuals considered. This cost, when once set up, comes to be looked upon as a standard with which all subsequent costs are compared. The per capita cost is a sort of index of efficiency, and whenever it rises above the standard it is a matter for investigation. Both services and objects, for the purposes of determining costs, should be reduced to tangible things. For example, the services of stenographers could be reduced to the number of stenographers employed, or, better, to the number of hours of service performed by each. Objects, too, for the purpose of the budget, can be reduced to tangible terms, such as so many automobiles or trucks. What the writer has in mind really goes further than this, however.

The question of motor-vehicle service in the larger cities has become a matter of large expense, and it is consequently necessary to have accurate records in order to keep the expense within reasonable bounds. As a means of determining this, the expense might be reckoned on the basis of cost per mile. In this case, two records of the costs might be kept, the one a daily record of what each motor vehicle has accomplished, the other a monthly sum-

mary. The former should include information such as is indicated in Chart VII.

The monthly summary should contain the various expense items chargeable to motor vehicles, to-

CHART VII

MOTOR-VEHICLE DAILY REPORT

Car_____ Date _____
Departure at_____o'clock Return at_____o'clock
Speedometer out_____ Speedometer in _____
Gasoline supplied_____ Gasoline used_____

TIME OF TRIPS			DESCRIPTION	IN CHARGE
Began	Ended	Elapsed Time		

gether with the amount of charge against each machine, as shown in Chart VIII.

The total mileage of the truck divided into the expense involved in running it gives the average cost per mile of operation.

Whenever horses are used by municipalities for street-cleaning, fires, etc., in arriving at the cost of work done, the unit of measurement taken is known as the "horse day," in connection with which only the productive time is considered. Stables should then be listed according to location, and to each should be charged its allowance of grain, etc. On the reports, in relation to each stable, the number of productive horse days and the cost per horse day should be shown.

More important than the above are the costs which arise in relation to light, heat, and power. If cost data be kept, they may be used as a basis for

CHART VIII

MOTOR-VEHICLE SERVICE COSTS

Department of_____ Month ended_____

	Car No.____ H.P.____	Car No.____ H.P.____	Etc.
Expense classification:			
Personal supplies			
Motor-vehicle supplies			
Cleaning supplies			
General plant supplies			
Storage of motor vehicles			
Wearing apparel			
Tires and inner tubes			
Replacements			
Repairs			
Engine, chassis, and body			
Replacements			
Repairs			
Appurtenances			
Replacements			
Repairs			
Total			
Miles run			
Average cost per mile			
Miles per gallon of gasoline			

properly fixing the rate to be charged for service supplied to consumers. The largest item of costs in the operation of these public-service industries is of course coal, but there are also repairs, replacements,

wages, supplies, fixed charges, etc. By computing the cost of steam generated, the cost of electric current generated, and the cost of electric current distributed, the largest items of expenses incurred are ascertained. From meter readings, the kilowatt hours distributed can be determined and the cost per unit easily found.

In the case of gas production, the most important items of expense are for manufacturing and distribution, and when the total amount of these costs is divided by the total number of cubic feet produced, the quotient is the cost per cubic foot.

In the water department, the main costs are: administrative, which have to do with the supervision of the department; operative, which cover the operation of waterworks as a mechanical, chemical, and biological system rather than as a business enterprise; and maintenance, which have to do with services and materials for repairs and replacements. The basis for arriving at the unit cost is the number of cubic feet supplied to city departments and consumers.

The cost of job work in a municipality is determined by summarizing the stores requisitions and direct invoice charges; the amount of labor chargeable to the particular work order, plus the expense burden incurred; that is, labor, material, and burden, divided into the quantity of work done will give the unit cost. This material may serve for the pur-

pose of estimates on the costs of jobs to be undertaken at a later time.[1]

If the above suggestions are followed in respect to all items of cost which occur in a municipality, the per capita cost of the budget as a whole and the per capita of each function may be set up in a budget report for the whole year. The costs are arrived at by dividing the appropriations for each general function by the city census. Thus in a budget report the per capita cost may be supplemented by the percentage of each group total, showing in this way the proportion which is allotted to a given purpose from the city's total budget.

We must bear in mind that the purpose of "unit-cost data" is to supply a standard for testing the economy and efficiency of work results. The conclusions of such analyses are "square yards," cost of pavement; "cubic yards," cost of excavation; "horse days" cost of running the stables, etc.

There are some differences of opinion respecting the value of the cost-data budget:[2]

About ten years ago, the borough of Richmond, New York City, experimented for a period of four years with a cost-data budget. The proposition was finally abandoned at the request of the borough president, who intimated that the system had failed owing to inherent shortcomings. It has been pointed out in defense of the cost-data budget that its failure was

[1]Eggleston, *Municipal Accounting,* p. 137.

[2]Adamson, *Annals,* November, 1915, p. 253.

due to: lack of interest on the part of the board of estimate and apportionment; hostility of departments, which resented interference on the part of the efficiency staff; slowness with which the new system was introduced; and loss of power by the efficiency staff.

The New York Bureau of Municipal Research found that the scheme was forced upon hostile departments; the staff installing the system was poorly supported by the central authorities; and the scheme was withdrawn before the experiment got under way. Therefore, the cost-data budget plan failed, not because it was impracticable, but because it required a more highly developed system of accounting and better departmental organization than existed in the borough of Richmond at that time.[3]

An important weakness that is pointed out is that the cost-data budget fails to control expenditures. In New York City, the cost-data budget is not so understandable as the work program that forms the basis for the scheduled budget. The latter is a work-program cost-data budget, and after the proper cost data have been determined, it should be used to supplement the work program which is the foundation of an intelligent budget. An ordinary work-program budget does not analyze cost data, but accepts and applies the costs of the previous years as the proper costs for the present year. Furthermore, it is important to observe that a unit cost

[3]New York Bureau of Municipal Research, *Bulletin No. 88* (August, 1917), pp. 112–27.

does not necessarily represent a proper cost. If the cost of laying a square yard of pavement be $2.00, these data are valueless unless the $2.00 is analyzed into its constituent elements, such as cost of labor, supervision, supplies, material, equipment, etc. An analysis of this nature will account, in a large number of cases, for the difference in costs of performing similar tasks. A criticism of the compound unit cost is that it compares dissimilar things; there is a possibility for comparing similar things only where the costs are broken up into their constituent elements.

HOW SHALL THE COSTS BE MET?

In determining the character of the information desirable for the purposes of a budget, a city must decide upon the work to be done, and the agency responsible for it, and the cost of the work. The methods of meeting the costs incurred in carrying out the work are important. These costs may be met in one of two ways: If the city is in a good financial condition, it is possible that the newly planned work may be met by paying out of current revenues. If such be the case, no very difficult problem presents itself. It may happen, however, that expenses exceed revenues, in which case a deficit exists. This condition will invariably necessitate the use of an overdraft, which means that a current liability has been transformed into a fixed liability. This is a method of piling up enormous debts which

have to be met out of revenues, thus shifting onto posterity a burden which should be borne by the persons securing the benefits.

It is likely, however, that a city may be compelled to meet an extra expenditure with money derived from sources other than revenue, in which case the comptroller will be compelled to provide for additional methods of raising the funds. The plan commonly resorted to is borrowing money. While it may be within the power of the comptroller to present before the council a method of raising the required revenue, it is usually the case that he can carry the matter no farther than this. Several important questions arise whenever such a policy is decided upon, because it brings up the question of bonding the city. If the municipality decides to issue bonds, then the taxpayers must be called upon to approve the measure. This requires time and money, but it is the only procedure possible. When the bonds have been approved, their term and nature must be such that they serve the best interest of the city. Usually bonds are not issued for a term longer than the possible life of the asset for the benefit of which they are issued.

Nearly every day a person can see offers of municipal securities in the newspapers, indicating the tendency of cities to hypothecate their revenues. The bases upon which money may be borrowed by a city are prominent when we note how this form of organization differs from a commercial enterprise.

The former is operated for the common betterment; the latter, for profit. A private business may borrow on the basis of its balance sheet, this report indicating whether or not the enterprise has assets sufficient to satisfy its liabilities. The basis of borrowing in a city is not on the strength of its assets, but on the ability of the enterprise to pay interest on the debt limit fixed by law.

The tendency on the part of municipalities to borrow in order to meet rapidly increasing expenditures has necessitated interference on the part of state legislatures to limit the borrowing capacities of cities. The debt limit is commonly placed at a certain percentage of the city's assessed valuation, and thus whenever the municipal property becomes of greater assessed valuation, the debt limit increases.

There is some question respecting the items to be considered in establishing the debt limit of a city. Should the restrictions upon borrowing power apply to debts incurred for municipal industries? If the enterprise becomes self-supporting, it is believed that such exemption should be granted. In figuring a city's debt limit, it is usual to deduct bonds held in sinking funds from the gross bonded indebtedness; revenue bonds and special revenue bonds should be included in computing the city debt. In states where a debt limit is set by law, it is common to use a percentage of the previous year's valuation, or an average, say, for the three preceding years. Thus, in conformity with what

has just been said, a debt limit might be reckoned as shown in Table IV.

TABLE IV

Date: 1921	$ 86,000,000	
1922	93,000,000	
1923	109,000,000	
	$288,000,000	
Average valuation	96,000,000	
Debt limit 3 per cent of same		$2,880,000
Bonded indebtedness within the limit	1,200,000	
Less municipal loan sinking fund	200,000	1,000,000
Borrowing capacity within debit limit		$1,880,000

It seems, then, that the character of the information to be gathered for the purpose of the budget depends upon the work to be done, agency responsible for it, cost of the work, and methods of meeting that cost.

To make the above material more concrete and specific, let us see how it would work out in an actual case. The city of Chicago, for example, decides to operate its park system under the jurisdiction of park commissioners. The parks of the South Side are placed under the control of the South Park Commissioners. The work to be done obviously concerns the health of those who reside on the South Side and who are compelled to take their recreation in the public parks. In a large city it would be difficult if not impossible for a small group of men to conduct all of the parks, so a board is assigned to each of the three districts and

is made responsible for all the activities in respect to the parks. For budgetary purposes, a task has been decided upon and an agency has been made responsible for the work to be done. The next question is, How much will it cost to conduct the parks? The South Park Commission is able to fall back

TABLE V*

Park	Cost per Capita	Cost per Acre
Jackson Park	$0.19	$ 312.47
Washington Park	.23	390.60
Marquette Park	.33	55.07
Calumet Park	.127	146.97
Sherman Park	.061	730.73
Ogden Park	.064	730.25
Palmer Park	.096	1,030.20
Hamilton Park	.066	1,202.84
Bessemer Park	.069	1,235.36
Russell Square	.069	2,535.12
Fuller Park	.05	3,972.20
Davis Square	.059	3,602.36
Armour Square	.072	3,137.48
Cornell Square	.057	3,033.70
Mark White Square	$0.058	$3,556.49

* *Annals*, November, 1915, p. 140.

upon its past records, for it has been in operation for over fifty years. Mr. Paul T. Beisser made a study of this material for the year 1913, and in respect to each park on the South Side has compared value of improvements, cost of operation, attendance, area, cost per capita, cost per $1,000 of improvements, and cost per acre. In Table V are given only the data which deal with the matter of costs.

The collector of these data comes to the conclusion that there is imperative need for careful analysis and standardization of the costs of facilities. "In order to plan improvements wisely, to estimate budget items, to compare the results which are secured in various cities, some bases of judgment and comparison are essential." He believes, as do many others, that a great deal can be accomplished in the direction of cost determination. The cost per capita, in the case of the parks, may be used as a basis of budget requirements. Perhaps expenditures for the following period can be met out of current revenue. If not, the South Park Commission must obtain permission to issue bonds, which means that the whole charge is not, as it should be, against those who are securing the benefits, but against posterity. For this reason the issuance of bonds for such a project should be condemned.

CHAPTER VI

CLASSIFYING THE INFORMATION

NECESSITY FOR CLASSIFICATION

After the character of the information has been determined, the information must be classified in such a way that it can be used to the greatest advantage. Mr. Buck says:

> The proper classification of budget information insures uniformity in presentation; makes for accuracy in planning; facilitates gathering, compiling, and reviewing; enables comparisons to be made with past years as well as between departments and institutions of similar character; and makes the budget easier to understand when it is set up.[1]

The New York City Bureau of Municipal Research has repeatedly urged the use of classification in city affairs. The classification of expenditures should be as uniform as possible for all departments; standard classification should be used for both revenue and expenditures. This standard is designed to make the items of a budget definite, precise, and clear, to aid in the audit and control of expenditures, and to facilitate the preparation of comparative statements, month by month and year by year.

[1] A. E. Buck, *Budget Making*, p. 39.

METHODS OF CLASSIFICATION: EXPENSES

Expenditures in a municipality may be classified either according to functions, organization units, objects, character, or funds.

If one of the above classifications, or a combination of them, be used for expenditures, it is possible to base estimates upon them. The estimates may then be used as the basis of an intelligent budget. Expense items must be analyzed in order to obtain data for administrative or budgetary purposes, and the best way to arrive at a satisfactory result is to follow the functional divisions of a city's organization.

The functions of a governmental organization are its activities. The functions of the bureau of water, for example, are pumping, filtration, distribution, etc. The United States Bureau of the Census has devised a functional classification of expenditures which may be used for municipal purposes. Following the broad, general lines as suggested by the Bureau, we should have the accounts of the municipality under the following headings:

5. Expenses
   - 51. General government
     - 511. Legislative
     - 512. Executive
     - 513. Finance
     - 514. Judicial
     - 515. Elections

52. Protection of life and property
    - 521. Police department
    - 522. Fire department
53. Health and sanitation
    - 531. Health department
    - 532. Hospital service
    - 533. Sewage disposal
54. Highways
55. Charities and corrections
    - 551. Charities
    - 552. Corrections
56. Education
57. Recreation
    - 571. Parks
    - 572. Playgrounds
58. General
59. Miscellaneous[2]

It is the aim of the foregoing expense analysis to have the main divisions correspond to the general functions or departmental divisions of the municipalities, and to use the minor divisions to show the organization details of the various departments. The above classification can be changed easily to meet peculiar conditions of cities, for instance, introducing divisions such as "Care of public buildings," or "Docks and ferries," etc. This classification is open to several criticisms. There is no very good reason for the separation of "Health and sanitation" into "Conservation of health" and

[2]U. S. Bureau of the Census, *Financial Statistics of Cities;* Eggleston, *Municipal Accounting,* p. 119.

"Sanitation and promotion of cleanliness"; it is difficult to determine whether educational recreation should go under "Education" or "Recreation"; "General" and "Miscellaneous" are impossible of differentiation, and besides, neither represents a functional classification. Moreover, the classes are not very evenly balanced; in fact, this classification is merely an arrangement under a few headings, and it cannot be used advantageously as a budget classification. As applied to cities, the functional classification may be used for a municipal organization of a few departments, which are in turn divided into bureaus, and it is important to note that this method does not fix responsibility for administration unless it be accompanied by the organization group or unit.

The total expenditures of a city may be classified according to departments or subdivisions such as bureaus, offices, etc. These are known as organization units; for example, department of health, charities and corrections, etc. The essence of this organization is that someone upon whom responsibility rests is placed in control, and consequently this plan is of significance in the field of financial control. It is the best classification for the purposes of budget-making, because personal responsibility is emphasized. In Mr. Oakey's book, he states that the primary purpose in classifying expenditures according to organization units is to locate responsibility. Where responsibility is well

worked out in governmental organization, the matter of expenditures rests with the various executive officers who have charge of the several units. In cities where the executive budget is used, the responsible executive must look not only to the expenditure needs, but also to the proper expenditure of the money granted. Under the chief executive there are executives in charge of each major unit of organization, who, in turn, are responsibile for the estimates and expenditures of all subordinate units within their jurisdiction. Their duties may extend to the execution of contracts and to the approval of purchase orders, vouchers, and pay-rolls for payment, etc. Whenever they delegate their authority to subordinates, they are responsible for the manner in which the task is performed. Mr. Oakey is of the opinion that, if responsibility for expenditures is to be definitely located, it is essential that the amounts be classified according to organization units.[3]

Object classification of expenditures refers to the article purchased or the service obtained, as distinguished from the results secured by expenditures. For budget purposes it is a classification of the services and commodities to be purchased and of the obligations to be met by the government. This method should accompany the organization-unit classification in making appropriations, in order that proper control of expenditures may be exercised. The classi-

[3]F. O. Oakey, *Principles of Government Accounting and Reporting,* p. 335.

fication in Dayton and the classification in St. Paul are worked out along these lines. Following our arrangement, those of Dayton would appear as follows:

5. Expenses
   - 51. Personal service
   - 52. Contractual service
   - 53. Sundry charges
   - 54. Supplies
   - 55. Materials
   - 56. Equipment
   - 57. Land, buildings, and structures

The classification of St. Paul is more detailed, but follows still the object method:

5. Expenses
   - 51. Salaries and wages
   - 52. Contractual services
   - 53. Materials
   - 54. Supplies
   - 55. Equipment
   - 56. Contributions
   - 57. Pensions and compensations
   - 58. Taxes and special assessments
   - 59. Judgments and compromise
     - 591. Refunds and Repayments
     - 592. Land
     - 593. Buildings, structures, and improvements
     - 594. Payment of other funds
     - 595. Interest
     - 596. Redemption of debt

The classification of expenditures by objects, that is, by things purchased, is used in Philadelphia. Mr. Walton says:

The classification of expenditures by objects is very largely based upon the similar classification by President Taft's Commission on Economy and Efficiency, and the city comptroller has prescribed its use in the accounts of the city and county of Philadelphia for the reason that it is by far the most complete, comprehensive and usable classification of expenditures for federal, state, and municipal government that has been devised.[4]

Following is the form:

Expenses

- A. Salaries, wages, and other compensation for personal services currently rendered
- B. Services other than personal
- C. Materials not specifically adapted for use as supplies, equipment, or structures
- D. Supplies
- E. Equipment (including live stock) and parts
- F. Structures and parts and non-structural improvements on land
- G. Land
- H. Purchase of rights of action, payment of debt, and other obligations
- J. Fixed charges and contributions other than pensions and retirement salaries
- K. Pensions and retirement salaries
- L. Contingencies
- M. Payments arising from the relation of agent

As far as budget-making is concerned, the method of classifying by character is of value only as an aid in determining financial policy. For this reason it is well to use at least four divisions: (*a*) current ex-

[4] *Manual of Accounting* (Philadelphia), p. 41.

penses, (*b*) fixed charges, (*c*) acquisition of property, and (*d*) redemption of debt.

This classification of expenditures is one based on the relationship of the several expenditures to current, prior, and future periods. The first, current expenses, has to do with expenditures which are incurred under the direction of the existing administration, and are intended to cover the current period. Fixed charges are those expenditures which were created during the previous period and which have to be met by this or subsequent administrations. The latter should be met out of current revenues and should not be deferred to subsequent administrations if a sound financial policy is to be followed. Acquisition of property is often spoken of as "capital outlay," and such acquisitions are those which result in the increase of capital assets or the decrease of capital liabilities. All fixed properties should be considered as capital assets. In connection therewith, it is necessary to bear in mind such terms as "replacements," "additions," and "betterments." It is important to note here that in municipal practice, current repairs should be shown under "current expenses," and such items as replacements which really add to the capital value of the assets should be listed under "capital outlay." The latter practice is followed on the supposition that the property is restored to its original efficiency and usefulness and that it results in an increase in the net capital investment. It is sometimes difficult to differentiate be-

tween replacements and additions and betterments in order to determine whether the item should be considered as an expense or an addition to the asset.

Expenditures for municipal purposes may be classified according to functions, organization units, objects, character, or by funds. The object in classification by funds is to show the respective use of general funds, loan funds, and special and trust funds. Each analysis shows for any period the use of loan funds for current expenses, and the use of general funds for the acquisition of permanent property and other capital. In most cities, funds are set aside for special or general purposes. These must be taken into account in determining expenditures. For the purposes of budget-making, the conditions and limitations attached to the funds must be known before anything can be done.

In most cities, provision is made for a "general fund," in which all revenue not intended for other purposes may be placed. Over this fund, the legislative division of the governmental organization usually has control, and any amount which is placed in other or special funds takes just that amount of control out of the hands of the legislature. This is an unfortunate condition in municipalities, since responsibility for the making of the budget is usually in the hands of the legislative body; if special funds be used, that responsibility is curtailed and made less effective. In a city, it is possible, therefore, for one administration to restrict the activities of a sub-

sequent administration by making provision for numerous funds. Besides the general and special funds, there are sinking funds, designed for the redemption of long-term bonds and usually held separate from other funds in the treasury; working-capital funds, obtained by appropriation or borrowing for manufacturing or constructive purposes and replenished by proceeds from sales or transfers; endowment funds, the expenditure of the income of which is permitted for specific purposes; and, finally, suspense funds, intended for specific purposes but temporarily awaiting distribution.

In some cases, if the city follows a classification at all, it is likely to be a mixture of the various methods suggested. Take the classification of expenditures for San Jose, 1919–20:

Council
Clerk
City manager
Auditor
Treasurer
City attorney
Police court
Civil service
Police department
Fire department
Electrical department
City pound
Health department
Public works
Libraries
Parks

Donation to pension fund
Liability compensation
Miscellaneous contract payments
Bond interest
Bond redemptions
Schools
Emergency-fund appropriation

In Rochester, New York, the estimates are analyzed in three ways: (1) by functions; (2) by character; (3) by object of expenditure. The groups are set forth as a work program, but in order that the administrator may not be too rigidly limited in his operations, appropriations are granted in lump sums and a current analysis of expenditures under the same titles is maintained in the comptroller's office for the purpose of providing a critical and comparative review against the work program set forth in the budget.

METHODS OF CLASSIFICATION: REVENUES

We have covered at some length the matter of classification of expenditures for the purposes of the budget. The other half of the budget contains items of revenue.

In a study of the revenues of municipalities, we must be sure of our terminology. Is there really any distinction between such expressions as "receipts," "income" and "revenue"? If so, is it of any particular significance? We should think of "receipts" as that amount of cash which is received by a municipality irrespective of its source, and of "income" as

that amount to which a municipality is entitled, whether or not it is collected. Mr. Walton considers "revenue" as the "increment of gain applicable or apportionable to a certain period as accruing in and belonging to that period, irrespective of the period in which it becomes collectible or is collected."[5] The Census Bureau uses the following:

> Municipal revenues are the moneys and other wealth received by or placed to the credit of cities and other municipalities for governmental purposes that increase their assets without increasing their debt liabilities, or that decrease their debt liabilities without decreasing their assets.[6]

The Bureau follows this classification of revenues:

1. The taxes levied in accordance with the city's financial program or budget, to meet its governmental costs during that year, whether or not such revenues are recorded on the tax lists of some other year.

2. Special assessments levied for the given year, or otherwise made legally available for use during that year.

3. Revenues earned during the year by the operation of public-service enterprises, the management of public properties and investments, the loaning of money and leasing of properties, and the performance of services.

4. Revenues from subventions, which are legally due and receivable during the year.

[5] *Op. cit.*, p. 54. [6] *Op. cit.*, p. 31.

5. Other amounts received or placed to the credit of the municipality during the year, which increase its assets without increasing its liabilities, or which decrease its liabilities without decreasing its assets.

In making any kind of municipal report, the distinction between the above terms is of such importance that it is imperative further to bring out the difference, particularly between receipts and revenues.

Receipts are customarily divided into two classes: public and private. Public receipts involve the transference of possession and not of ownership, such as, for example, the giving of bail. Private receipts, on the contrary, convey both ownership and possession, and include all items which in time increase the surplus of the municipality. Revenue of the latter class may be derived from the sale of assets, from the sale of bonds, from assessments, and from taxes, licenses, etc.

Following these suggestions, we could easily classify incomes under the following headings: (*a*) organization units, such as bureaus, (*b*) function, as electrical bureau, (*c*) character of income, as land, expense, revenue, etc., (*d*) source, (*e*) funds.

Of these five, it has seemed best to classify municipal revenue according to its source. We must follow some classification in order to be able to make an intelligent comparison between revenues of different governments or of different years of the same government. The following seems the most satisfactory:

4. Revenue
   - 41. Taxes
     - 411. General property
     - 412. Special property
     - 413. Poll
     - 414. Business
     - 415. Non-business
   - 42. Special assessments and special charges for outlays
   - 43. Fines, forfeits, and escheats
   - 44. Subventions and grants
   - 45. Donations and gifts
   - 46. Pension assessments
   - 47. Earnings of general departments
   - 48. Highway privileges
   - 49. Rents
     - 491. Interest
     - 492. Earnings of public-service enterprises

If we use the above classification, which is advocated by the Census Bureau, we arrive at some basis for a comparison of the revenues of our large cities. We have followed the Census classification's definition of "revenue": (1) Amounts of revenue recorded in local cash accounts during the year, and (2) amounts of similar receipts which the Bureau combines with the recorded cash receipts for comparative purposes. Municipal non-revenue receipts comprise all receipts recorded during the year in so-called cash accounts of the municipalities from (*a*) sales of investments, (*b*) sale of supplies which have been purchased for sale, (*c*) sale of municipal securities, (*d*) transactions other than sales of municipal secur-

ities which increased municipal indebtedness during the year of service, the costs of which have been included among the expenses and outlays of the year.[7]

It goes without saying that there is little uniformity in classification of expenditures and revenues in the various cities. The statement will be borne out by an examination of the classifications used in various American cities. The items used vary in number, as an examination of the city budgets shows. For the year 1920, January 1 to December 31, Scranton had 455 items in the budget.

The classification of expenses and revenues is closely connected with the classification of accounts. Many cities have simple account classifications, which facilitates not only the accounting, but the administrative procedure. Cincinnati gives a number to each fund, thus:

1. General fund
2. Public-safety fund
3. Public-health fund
4. Public-service fund
5. Park fund
6. University and observatory fund

Within each fund, each department or division has a letter, thus:

A. Council
B. Clerk of council
C. Mayor

[7]U. S. Bureau of the Census, *op. cit.*, p. 38.

D. Auditor
E. Treasurer
F. Solicitor, etc.

Within each division, each account has a number, thus:

1. Salaries, wages, etc.
4. Services other than personal
5. Supplies and material
6. Purchases of equipment, etc.

Thus, 1 A 1 stands for salaries and wages for the council from the general fund, 1 D 5 for supplies and material for the auditor from the general fund, 2 C 6 for purchase of equipment for the police department from the public-safety fund, etc.

There are as many classifications of accounts in American cities, it seems, as there are municipalities with accounts to classify. It is unfortunate that little effort has been made to secure a uniform classification of municipal accounts, especially within states. An absolutely fixed classification of accounts would lead to rigidity unless provisions were made in the system for flexibility to meet the conditions in each city.

As a recommendation, a uniform classification of receipts might follow these general lines:[8]

1. Receipts
   A. As to *source*
   B. As to *fund*

[8]See recommendations of committee working under Illinois Municipal League, from which this material is largely drawn.

The sources of receipts might be divided thus, and the funds thereunder listed as follows:

I. Revenue receipts
   A. General taxes
   B. Special taxes, not including special assessments or pension funds
   C. Fines
   D. Licenses, franchises, and privileges
   E. Departmental earnings, not including earnings of public utilities

II. Non-revenue receipts
   A. Receipts from loans, bonds, etc.
   B. Receipts from special assessments
   C. Receipts from public utilities with an account for each
   D. Trust and special funds

The main divisions of sources and funds as given in this outline could be adhered to by all of the municipalities of a state. Each of the items listed under I and II could be divided to suit the particular needs of the respective cities.

A classification of expenditures might follow this general outline:

2. Expenditures
   A. As to *department*
   B. As to *fund*
   C. As to *service and commodity*

The committee of the Illinois Municipal League, referred to above, recommended the following classification. For expenditures:

I. Expense and interest
   A. Corporate expense (salaries, materials, and miscellaneous, but not including equipment)
      1. General government (public affairs, and accounts and finance)
         a) Mayor
         b) Council or commissioners
         c) Legal department
         d) Comptroller
         e) City clerk
         f) Treasurer
         g) Election expenses
         h) Judicial departments
         i) Civil-service commission
         j) Contingencies
      2. Public health, safety, and sanitation
         a) Police department
         b) Fire department
            (1) Salaries
            (2) Materials and supplies
            (3) Fire-alarm system
         c) Inspection
         d) Health department
         e) Garbage
         f) Hospitals and sanitariums
      3. Public works and property
         a) Engineer
         b) Board of local improvements
         c) Streets and subways
            (1) Cleaning
            (2) Repairs
            (3) Sprinkling
            (4) Oiling
         d) Sidewalks
         e) Sewers and drainage

f) Bridges, wharves, and waterways
g) Street-lighting
h) Public buildings
i) Scales
j) Cemetery
4. Parks and playgrounds
5. Libraries

B. Interest and redemption of debt

II. Capital outlays
A. From corporate revenue
1. Departmental
2. Public benefits for local improvements
B. From general bond issues
C. From special assessment funds
D. From receipts of public-service enterprises

III. Public-service enterprises
A. Waterworks
B. Electric-light plant

IV. Trust and special funds
A. Police pension fund
B. Firemen pension fund
C. Sinking fund

It would seem that a uniform classification, such as has been suggested, of revenues and expenditures within a state would lead to more satisfactory municipal control and regulation. The rigidity which is likely to arise because of uniformity can be obviated by permitting the cities and towns to arrange the funds as their ordinances and practices demand, and to divide their service and commodity accounts in such a way as their particular conditions require.

CHAPTER VII

PREPARING THE ESTIMATES

USE OF FORMS IN MAKING THE ESTIMATES

If the information pertaining to expenditures and revenues be classified according to one or more of the methods suggested above, the preparation of the estimates for budgetary purposes is simplified to a large extent. The first step in the preparation of the budget, based upon requirements as hereinbefore set forth, has to do with the making of the budgetary estimates. A question of great importance is the kind of reports which are to be used in collecting and bringing together the budget information.

It would be possible for the city budget laws to prescribe the type of information which should be included in the budget estimate. If cities were to follow a uniform procedure in matters of this kind, they would secure the advantages of uniformity, and at the same time the disadvantages. One great fault with standardization is the fact that too much of it may result in fixed procedure and inelasticity. It might be well for the city laws to prescribe the information which should be furnished in the budget, leaving to the executive, the board, or the legislature, whichever is responsible for its execution, the content of the forms to be used. It is unfortunate

that some budget laws insist upon prescribed forms. At the same time, when this is not done there is wide divergence of opinion as to the number of forms needed, the amount, character, and content of the information required, and the methods of filling out the forms. In Rochester, New York, for example, forms are designed to show in detail the process by which departmental estimates are made. The comptroller prepares the statistical data on the budget sheets, after which the departments fill in their budget estimates. The departmental estimates are revised by a committee of the board of estimate and apportionment, submitted to the mayor, and then presented to the board, which designates times at which it will hold public hearings before transmission of the budget to the common council for its approval and adoption. In the study, it was found that twenty-seven cities made use of the budget forms, and fifteen did not.

The forms should be made out on good strong paper. There is some advantage in using a standard-size paper, although the wide-carriage typewriters in many offices could take care of the large sheets. The estimate must contain blanks for indicating the agency which is making the estimate and for such additional information as department, division, and location. These estimate forms should be accompanied by a sheet of the same size containing an explanation of the items on the forms. Instructions should go with this, explaining exactly what has to

be done. These instructions might include the following: State the time limit for filling in the estimates; state the number of copies to be filed with the budget-making authority; require the estimates to be made out with typewriter; amounts should be stated in dollars only; the estimates should be approved by a responsible officer of the agency; the budget classification of expenditures should be explained in detail; directions should be given as to the way of filling out each form; and the instructions should contain a copy of the municipal budget ordinance.

From a study of the different cities, the following information respecting the preparation of the estimates has been collected:

The question was asked, Are department estimates used in the preparation of the budget? Forty-five of the forty-six cities considered stated that they did make use of departmental estimates. Twenty-seven of the cities replied that they used standard forms in obtaining department estimates. Eighteen made use of no standard form. While it is encouraging to find that so many of the municipalities make use of departmental estimates, it is disappointing to learn that there are so many that have failed to see the advantages in the use of the standard form. Unfortunately, this practice leads to an unsatisfactory state of affairs.

Attention is called to the condition in New Or-

leans a few years ago.[1] There, officials did not use uniform blanks, but their departmental estimates were submitted on letterheads of various sizes of paper. There was only one copy of each estimate. There was very little detail, and no supporting information. Since the papers upon which the estimates were made were of varying size, it was impossible to bind them together. They were folded like legal documents and filed under the name of the agency making the request. The estimates gave very little information respecting personal services, supplies, etc., and that given was so diversified and incomplete that it was of little value for budgetary purposes. Frequently estimates for personal services such as salaries and wages to employees were placed together on one account, and not even the number of employees was designated. In case there had been any increase of estimates over the appropriations of the preceding year, it was impossible to determine whether this was due to increase in pay, increases in the number of employees, or a combination of the two.

All of the estimates suggested should be furnished to a chief financial officer of the city, who should have charge of the collection of the departmental estimates. New York City officials have been of the opinion that it is better in furnishing information to the chief financial officer to make use of

[1]A. E. Buck, *Survey of the City of New Orleans* (about 1921). Unpublished.

the services of budget examiners rather than of department heads, since it often happens that the former are better judges of the needs of the department than the latter.

> One of the advantages that a centralized force of examiners has over department representatives is that they are in a position to witness the activities of all departments, to contrast the good with the bad and to make profitable use of the mistakes of one department and the high accomplishments of another.[2]

The duty of collecting the budget estimates falls upon the city manager in seven cities; on the finance commission in three; the board of estimate in one; the budget commissioner in one; the auditor in six; the comptroller in seven; the department of finance in one; the directors in one; the mayor or auditor in one; the board of finance in one; the heads of departments in four; the mayor in five; the city commissioners in one; the board of estimate and apportionment in one; the commissioner of finance in two; and the clerk in one. The officer or the commissioner has been listed by his exact title in the above, and that accounts for the seeming variety. The point for our consideration, it seems, is whether or not the material is turned over to an individual or to a commission. By enumerating, we find that in thirty cases, the departmental estimates are submitted to an individual; in thirteen, to a board or commission, or to a group of persons. It is believed

[2] T. Adamson, *Annals*, November, 1915, p. 253.

that these data should go to a chief finance officer of the city, who should have the power to correct and revise.

It was observed from the study that in thirty-two cases this financial officer or commission has the power to investigate departmental needs and revise the requests. One can form no conclusion as to whether this power to investigate and revise belonged commonly to the individual or to the boards. It appears to be about evenly divided. In nine cities where the privilege of investigating and revising departmental requests was denied, it was denied in four cases to commissions or boards, and in five cases to individuals.

After this investigating, revising, and compiling has been performed by the chief financial officer, the data are turned over to the budget-making authority. It is to be noted that in thirteen cases this function is performed by either the auditor or the comptroller, and the information is turned over by him to the mayor or whoever is responsible for the approval of the budget.

In many municipalities, all of the revenues are paid to the comptroller, who classifies the revenue as suggested in a previous chapter, and with the use of a comparative report indicates the revenue for past periods, the estimated amount for the present period, and the anticipated amounts for succeeding periods. It is not always the practice that all revenues are paid over to the comptroller. Not infrequently mu-

nicipal agencies are permitted to retain the money that they have collected, expending it as they see fit but at the same time supplying the budget-making authority with the amount of revenue and the purposes to which it is to be applied.

The information needed for the above purposes is supplied either by a written estimate or by investigations of the municipal records by the staff empowered to collect budget data. City budget laws, as a rule, require that detailed written estimates be made by the spending authorities, but usually nothing is said as to the collection of the material for the estimates. It stands to reason that the estimates will be far more satisfactory if they are based upon sound investigation by the budgetary staff.

The directions for making up estimates, sent out by a responsible executive to the department heads, vary in different cities. Those used in the city of Springfield, Massachusetts, will be shown here:

To the heads of all departments, boards, commissions, and officers of the City of Springfield:

In accordance with Section 20, Chapter 719, of the Acts of 1913, you will prepare an estimate for the expenditures necessary for the administration, operation and maintenance of your department, board or office for the current fiscal year and submit the same to this office **not later than January 10th next.**

Herewith are furnished standard sheets upon which to make your requested appropriations. Explicit directions for properly filling out these sheets are given herewith and it is requested that all officers carefully read the

directions and classifications before filling out the sheets. Sample sheets completely filled out are furnished for your guidance. Answers to questions and further guidance will be furnished upon application at the City Auditor's office.

In the city of Springfield, Massachusetts, further directions are given for filling out budget estimate sheets:

Three estimate sheets and a summary sheet will be used for submitting the budget requests. These sheets are:

Form A.—Personal services.
Form B—Supplies, materials and equipment.
Form C—All other.
Form D—Department summary.

Each department, division, function or activity will use such of these sheets as may be necessary. For instance, a department not requesting any supplies, materials, or equipment will have no use of Form B. Every department will submit a summary sheet and divisions may do so if they desire.

Form A—Personal services. Requests for the following will be made upon this sheet:

(1) Salaries of permanent employees
(2) Wages of permanent employees
(3) Salaries and wages of temporary employees
(9) Fees and compensation for other personal service under which, in separate groups, will be listed each class of employees, and those having different titles or different rates of compensation. Sub-totals will be made for each group listed above and totals for the sheet

Form B—Supplies, materials, and equipment. Requests for the following will be made upon this sheet:

30. Supplies
40. Materials
50. Equipment and parts, under which, in separate groups, will be listed the different classes of each, according to the classification given under each group. Under the different classes should be listed the specific commodities as are measurable and for which the required information can be given, as:
    32. Fuel
        Coal tons—10 at $6, etc.
        Wood cords—10 at $8, etc.
    53. Live stock
        Horses 2 at $300, etc.
        Horses 2 at $375, etc.

Form C—All other. Requests for the following will be made upon this sheet:

10. Salaries other than personal
20. Fixed charges and contributions
60. Land, structures and other capital outlay
70. Debt
90. Miscellaneous items not otherwise classified, under which, in separate groups, will be listed those things that are included thereunder in the classification. Specific items should be given wherever possible. In every instance as much detail should be given as possible or desirable and at the same time practicable.

Form D—Departmental summary

A summary or total of the department's estimates and requests and other data pertaining thereto will be made on this form. In those departments

which have more than one division, it will be a summary of all the individual estimates. A summary sheet may be made out for any one or any group of divisions if desired.

THE BASES OF THE ESTIMATES

While it is of the utmost importance that the character of the information for budgetary purposes be determined, and that this information be classified in such a way that all of the departments know the meaning of each account and the materials it must contain for the purposes of comparison, the real step of the budget toward control commences with the preparation of the estimates. The estimates may be determined in one of two ways: they may be based either on written guesses or upon the materials collected by individuals who have been instructed and directed to make surveys and field investigations. The budget laws in many of our large cities provide that the estimates be written up by the agency or department which is responsible for the expenditures, and it would seem that, in most localities, these estimates are accepted without any further investigation on the part of the budget-making authority.

It appears that either of the above methods is at fault unless it be supplemented with some check of the activities of each upon the other. Now the work may be done by a person who is responsible, or by a staff of individuals, or by special committees. Since the materials are nearer at hand for the person responsible, he should be the individual to make the

written estimates. An effective check could be made upon him by means of investigations on the part of a competent staff assigned for that special purpose. If threat of investigation were held over the head of the department, it is certain that he would then take greater care in the preparation of his estimates. In a city organization, this individual should be the head of the department. This does not mean that the work shall be done by him, but that it should be under his direction. In fact, if the work be done by a staff, the individual head over the staff could first be held responsible, and then the departmental head, who is, in turn, over the divisional or bureau head. It may be necessary for the head of the department to go over the materials submitted to him and revise and adjust them in such a manner that the work will be in good form when presented to the budget-making authority. This is done in twelve cities by the mayor; in ten cities by the manager; in five cities by the finance commission; in five cities by the auditor or comptroller; and in the remainder by various individuals or boards.

Now what does this budget program submitted to the legislative authority contain? It contains, first of all, an estimate of the probable expenditures for the following year. This is the case, of course, in all cities. Does it contain a statement of previous expenditures? In thirty-two it does; in Atlanta, Boston, Denver, St. Paul, Seattle, Springfield (Massachusetts), and Tacoma, it does not. This is an

important factor in all budget-making, and it is necessary that the estimates should contain a statement of past expenditures as well as an estimate of the future. In Milwaukee and New York City, the estimates do not contain estimated revenues, but in thirty-seven cities such an estimate of revenue is given. What is the practice respecting a statement of previous revenues? Twenty-seven include this, while ten do not. In Denver, in addition to the information above, the estimates include general comments on matters of city and county government. Detroit includes bonded-debt statements and summary statements, etc.

To do all of this work in the preparation of the estimates requires a great deal of activity on the part of the heads and the staffs under their direction. If, however, the estimate forms are sent out at the same date each year, it is then possible for the budgetary staff to be in readiness with the information required. In municipalities, it would make no great difference whether the fiscal year commenced in January or in July, since their legislative bodies meet frequently throughout the year; but in either case the budget estimates should be made only a short time before the beginning of the period to which they apply. Regarding this, M. Ribot said in France in 1883:

> The budget needs to be studied by the government at least three months in advance; the government has, therefore, to begin the preparation of the budget in the

month of October and to devote the last quarter of the year to this work.[3]

While the above remarks were intended to apply to the federal government, there is reason to believe that they would apply equally to municipal governments. René Stourm objects to this short period because "it deprives the budget plan of its most essential merit, that is, of exactness in the estimates of revenues and expenditures. The estimates, being so premature, must necessarily be, if not inexact, at least uncertain."[4] Since the estimates are merely guesses respecting a future period, it would seem that for city purposes, at least, the nearer the guess is to the future period, the more accurate the estimate is likely to be.

The New York Bureau of Municipal Research has recommended that not later than six weeks before the end of the fiscal year, the city manager (or mayor) shall prepare and submit to the council an annual budget for the ensuing year. The Bureau was of the opinion that the appropriation ordinance should be passed by the council before the beginning of the fiscal year, instead of one month later. The tentative report of the Governmental Research Conference Committee of June, 1921, recommended that there be a uniform fiscal year for cities, beginning with January 1. At any rate, the uniform political year for cities should begin on some date before the

[3] *The Budget*, p. 98.

[4] *Ibid.*, p. 99.

budget is prepared. If the incoming administration begins tenure of office before the budget-making period starts, it will have the experience of making up the financial program for the year. This provision would prevent an outgoing administration from formulating policies and laying down a program binding to the incoming officers.[5]

There is no definiteness whatever about the beginning of the fiscal year. More cities, however, date from the first of January, and the others begin, with few exceptions, before the first of May. The political year, in a great many instances, begins on the same date as the fiscal year, that is, on the first of January. As to the point taken up in the latter part of the quotation above, Does the outgoing administration prepare the budget for the incoming administration? it is found that in twenty-five instances such was the case, and in fourteen, the budget was not prepared in this manner. In fifteen cities, the outgoing legislative body fixed appropriations for the incoming administration, and in nineteen cities this was not the case. In Dubuque, Grand Rapids, St. Louis, and New York City, the tentative or proposed budget is published shortly before the city election, but in the practice of the majority of places, namely, in thirty-three studied, there is no publication at that time. The question as to whether or not the budget could be increased after election was re-

[5]From the Committee's report.

ligiously avoided. There were only six answers, three affirmative and three negative.

THE FISCAL YEAR

Although the fiscal year has been touched upon in the above division, it is necessary to say something further about it here. In the cities of the United States, this period is uniformly one year. Unfortunately, the fiscal year for municipal activities does not always conform. For example, in a city, we might find the fiscal year commencing on May 1, the date on which new officers entered upon the performance of their duties, whereas the budget year might commence on August 31. In some cities there are all the way from five to ten fiscal years. This in itself is not of very great significance, except that it is more important that the budget year and the year of the financial accounts and reports should coincide. In an investigation in 1901, Mr. Clow found that the great number of cities with populations over 80,000 had a budget year commencing January 1, and that the others ran all the way from January 23 to December 21. All other conditions permitting, it would seem that the first of the calendar year is the best, first of all because it is likely to coincide with the financial accounts and reports, and furthermore, because it is the time when financial transactions are likely to be lightest. At this period, most municipalities close their books for the year. This procedure is desirable because work of construction will not be

cut into and divided between two periods. In the northern cities, the greatest items of expense begin during the spring and grow gradually heavier as the summer progresses. January 1 comes, then, very near to a period of large expenditure. It is therefore possible to estimate the expenses to be incurred with the greatest possible accuracy. It is believed that cities, in the past twenty years, have realized the advantages of this arrangement.

A most desirable arrangement would be to have the changes of administration such that each administration could make and carry out its own budget. This would be possible if the officers were elected in the fall and the fiscal year were to commence January 1. If cities were to elect in the fall, it would mean that practically all of our elections, city, state, and federal, would come at that time. There has been a tendency in this country to divorce city elections from state and federal, by having the former in the spring. This arrangement has its advantages. When the budget year begins January 1 and the city officers are not elected until the spring, a new administration is compelled to commence upon the budget of a preceding administration. Spring elections for municipal officers might be retained, however, and the budget period shifted to commence, say, July 1. The budget year should conform also to the time when the taxes are levied and collected, especially when the budget is based upon the tax levy, since to have the fiscal year begin before the tax levy means

that the taxes are not collected until the end of the year for which they are levied. It is hard to reach any conclusion as to the time the tax rates are fixed in the various cities. Each of the cities has a time to suit its own convenience. As to when the collection of taxes is begun, there seems to be a practice of allowing two or three months' interim.

It is of great importance that the accounting periods coincide with the fiscal periods, and that they should not coincide with the administrative periods. By administrative periods is meant those periods which include the total of actions taken by one accounting officer either in the course of a year or during a term which corresponds with the duration of his functions. It seems that one great advantage of this condition is that accounting by fiscal periods permits the establishing of true budgetary situations, in that it makes it possible to know each budget year's resources and liabilities. One is able, further, to carry accrued items and deferred items back to the periods to which they belong only by accounting by fiscal periods. In addition, as pointed out by M. Stourm, accounting by fiscal periods permits comparisons to be drawn between budgetary situations made possible especially by the classification of accounts.

An interesting accounting question arises when the budget for the administration is not passed until the administration has been in power for some time, say for a month. During that time, no provi-

sion has been made for the payment of salaries, etc. It is the practice in some municipalities to use overdrafts, and possibly this is the general practice. Massachusetts provides, however, where such a condition arises, that the administration may pay out an amount equal to one-twelfth of the previous year's appropriation.

In the consideration of this material on the preparation of the budget, we have pointed out the general procedure which should be followed in the case of municipalities, and have hereafter to show a few of the problems which arise in connection therewith. As we proceed in this matter, certain qualities of the budget should be borne in mind:[6]

1. The budget must have unity; all of the revenues must be shown on one side and all of the expenditures must be shown on the other. "It is necessary to inclose a budget in a monument, the arrangement of which can easily be discerned and the outlines of which are apparent at a glance. Hence, the principle of unity."

2. The budget must be annual, because the legislative authorities for levying taxes and disbursing expenditures cannot go on indefinitely.

3. The budget must be made in advance; that is, nothing shall be done by way of revenues and expenditures until authorization is granted by the legislative authority of the municipality.

[6]Stourm, *op. cit.*, p. 145.

4. The budget must represent an accounting personality, that is, a rational being with assets and liabilities. "The budget is voted as a birth certificate of a person whose destiny it is to move around during the entire year."

To recapitulate then, with the above qualities in mind, departments are called upon to make the estimates. Forms similar to the following are frequently used:

> You are requested to furnish this department, on or before the first Monday in March next, an estimate of the amount of money that will be required by your department for the fiscal year ending September 30, 1925, and an estimate of the receipts for the same period.

After the estimates have been made, they are often filed directly with the budget-making authority or his staff agency, but it would be better if they were filed with an executive who has general charge of the estimate data, say with the comptroller, who in turn submits them to the mayor, or the council, or the finance committee, as the case may be. It shall be our purpose in the next chapter to consider what is done with the estimates thereafter.

CHAPTER VIII

REVISING THE ESTIMATES

NECESSITY FOR REVISION

Thenceforward most of the work devolves upon the budget-making authority. Since most of the estimates that are made are merely expressions of opinion from departmental heads, it is necessary that the information from the various sources be brought together, compared, and revised in accordance with the revenue that shall be available. After a thorough survey of the situation is made by the budget committee and its staff, the committee is in a position to make recommendations concerning the revenue as well as the expenditures. If it is found that the revenue is not sufficient to satisfy the requirements of the budget, it will be necessary for the budget-making authority to co-operate with the finance department with a view to increasing the city revenue. In most cities the power of the budget-making authority to revise the estimates extends to practically all items. These revisions are usually followed by tentative budget proposals prepared by the budget-making authority, and these, in turn, by public hearings at some time during the preparation of the budget, as provided by law. After the hearings, there is final revision in the light of the new in-

formation gathered, and then the revised budget goes to the legislative body empowered to pass upon it. We shall consider this material in greater detail in the paragraphs immediately following.

The reviewing and revising of the budget is one of the most important steps in the whole process. If municipalities do not realize its significance, they might profit from the experiences of industrialists, who were at first hesitant about performing this function. In an industrial enterprise, the estimates are often made by individuals under the direction of a bureau or division head. These heads, accordingly, look only to the interests of their own departments, unmindful of the sources from which the revenue is to come. Since these individuals know nothing about the general policies of the enterprise, it is not surprising that they should exaggerate their needs. The same is true of a municipality. Therefore, in a city it is necessary for some agency familiar with these major problems to go over the material, collect and compare it, and revise it in the light of the funds available and the needs of the community. A most flagrant problem which must be solved is the tendency of many individuals preparing the budget estimates to pad them intentionally, in the hope that when the expected cut on the part of the revising authority has been made there will still be revenue on hand above the exact needs. The budget-making authority must, in fact, reconcile two opposing forces. On the one hand are the agencies preparing

the estimates, endeavoring to make them as high as possible; on the other hand are the demands of the public, who insist that the estimates shall not exceed the amounts of money they are willing to furnish by way of taxation. Further than this, there are employees who want their salaries as high as may be, and groups of citizens, as well, who are demanding that funds be spent in such a way that their interests may be satisfied.

WHO SHOULD REVISE?

The next question which arises is, To what authority shall this matter of revision be delegated? In a well-regulated municipality, it seems best that the budget material should first be gone over by the executive under whose jurisdiction the estimates have been made. The best person for this work is the comptroller, since he performs the function of assembling the data submitted by the department heads. It is not intended that his revision should be a thorough one. It should be merely suggestive as to possible cuts which he has reason to believe the budget-making authority will later demand. Many of the estimates will no doubt be reasonable, while others will be unreasonable, and in the light of previous experience with the budget-making authority, the comptroller is in a position to eliminate considerable material which he knows will not go through. Of course whoever is responsible for submitting the budget to the legislature should review and revise the

estimates. It would not be necessary for the budget-making authority to work out the details of such review and revision; that duty might be delegated. The authority should be familiar enough with the estimates to make recommendations in accordance with general policies, or in conformity with public opinion. The budget-making authority might have a staff agency to carry through the preliminary revision of the estimates, to set up whatever standards are possible, and to investigate existing services and the conditions of spending agencies. This budget-revision staff should be in a position to furnish expert or technical information in respect to governmental needs and activities. Then the budget-making authority will be prepared to balance the various services each against the other, against public needs, and against the financial resources of the government.[1]

This, however, is only one side of the question. It is only one-half of the material which the budget-making authority must consider. Revenue and expenditure must be correlated. There is no occasion for the budget-making authority to do anything respecting expenditures unless it is sure that those expenditures are going to be met. Therefore, the budget-making authority must have estimates from the person in charge of the city's financial affairs in respect to the revenue that can be furnished. As noted elsewhere, expenditures can be met out of the

[1] A. E. Buck, *Budget Making*, p. 108.

current revenue or from increased taxation. If neither of these sources proves sufficient, the city may have to resort to borrowing money. It is assumed that it is within the power of the budget-making authority to make revisions of all the items of the budget. This is not technically correct, because there are often fixed charges upon the books of the municipality, which the budget-making authority has no power to alter.

The agency in charge of the budget cannot place all of its dependence upon the material which it has before it. There are many expenditures which must be incurred which are mainly contingent, due to the act of God, so called, but for which provision must be made. There is no way of foretelling the number of snowstorms which will occur during the winter season, and the expense which will be incurred in removing the snow. Fires, plagues, riots, and floods might increase the city expenditures by large figures. Similar to these contingent expenditures are judgments rendered by the courts. It is usual for a city to be called upon to answer for claims in personal damages due to defective sidewalks or streets, or in the exercise of its right of eminent domain. The financial officers of a city have no direct control and very little indirect control over claims of this kind. In the large cities of the country, this item of expenditure runs up to immense sums.

In New York in recent years the corporation counsel has confessed judgment in suits to such an extent as

to give rise to serious inquiries and causing a controversy with the comptroller requiring the corporation counsel to obtain the approval of the comptroller or the board of estimate and apportionment before instituting condemnation proceedings or confessing a judgment.[2]

This proves the necessity for the revision of the estimates, and in fact points out an important reason why the budget needs to be revised before it is finally adopted. After the revised estimates have been gone over by the executive upon whom the responsibility of collecting the data rests, it would be good practice for the budget-making authority to call in the heads of the various departments and ask them to state the merits of their respective demands. At this time the estimates could be reviewed, and later revised by the budget-making authority. However, it is believed that it would be highly desirable for the mayor or comptroller to go over the budget estimates before they get into the hands of the budget-making power. This seems necessary in view of the fact that either the mayor or comptroller is more conversant with general administrative policies, and is consequently in a position to make suggestions which might be of value to the budget-making authority. The revised estimates should be presented to the mayor or comptroller, who reviews them carefully, calling in any administrative officer whom he desires for advice and consultation, and making any changes which he deems necessary.

Before it is in a position to revamp the budget

[2] *Annals*, XVI, 148–49.

intelligently, a revising authority must have extensive and detailed information respecting city affairs. Briefly, the state law of Ohio requires that the budget contain the following data: the amount to be raised; the balance of the several funds at the end of the last fiscal year; monthly expenditures from each fund during the last fiscal year; the annual expenditures from each fund for each of the last fiscal years; monthly average of such expenditures from each of the funds for the last fiscal year, and also the monthly averages for the last five fiscal years; amount of money received and amount available for any purpose during the last five fiscal years, and an estimate of the probable amount for the coming year; amount of bonded indebtedness with detailed information; amount of other indebtedness incurred.

It is the opinion of the writer that the information of value in the revision of the budget should consist of more data than above enumerated. It should consist of nearly all or all of the following:

1. An estimate of expenses for each department. Chart IX shows a section from the estimate of a purchasing department, and a section of personal service pertaining to the auditor's department.

2. An estimate of revenue for each fund or department; see Table VI.

3. A comparison of the total expenditures for the last several fiscal years, and a comparison of

fund expenditures for the last two fiscal years; see Table VII and Table VIII.

TABLE VI

CINCINNATI: PUBLIC-SERVICE FUND

Franchise tax	$ 32,000
Automobile tax	225,000
Viaduct rentals	6,500
Vehicle license	12,000
Rent of city property	8,600
Rent of markets	20,000
Rent of docks and wharves	6,300
Public baths	8,000
Comfort stations	3,400
Building permits	3,000
Sewer tap	8,000
Reimbursement (Cincinnati Traction Co.)	3,500
Miscellaneous	5,953.50
Total for public-service fund	$342,253.50

TABLE VII

CINCINNATI: COMPARISON OF CITY EXPENDITURES—TOTALS

1910	$4,598,594.45
1911	4,639,812.47
1912	4,698,855.58
1913	4,790,666.32
1914	4,613,582.32
1915	4,914,302.18
1916	4,989,899.58
1917	5,184,433.46
1918	5,427,513.65
1919	5,543,747.29
1920	7,392,656.83
1921	7,002,555.79
1922	$6,051,240.77

CHART IX

City of_____

Department_____ General_____ Bureau_____ Auditor_____ Estimate for year 1924

Appropriation		Est. for 1924			Ann. Ex.—Sal. and Wage				Actual Ex.	Approp.	
Code No	Title and Detail	Rate Wage or Price Unit	No. Emp. or Qual. Supp.	Amt.	Oct. to Mar. 31, '23		Oct. to Dec. 31, '22			1st Half	2d Half
					No Em.	Amt.	No Em.	Amt.			
4 B 5	Materials and supplies:										
	Statistical cards			30.00					.....		
	Envelopes			125.00					43.25		
	Board sheet form No. 3			25.00					30.45		
	Order blank form 5			250.00					156.20		
	Letter heads			30.00					12.45		
	Inquiry blanks			20.00					31.20		
	Carbon paper			60.00					2.50		
	Typewriter ribbons			15.00					.....		
	Pencils			6.00					.....		
	Proposals			18.00					.....		
	Requisition form 1			2.00					.....		
	Pencils, clips, scratch pads, blotters, ink, etc.			30.00					45.00		
	Voucher blanks			6.00					81.53		
	Miscellaneous			.....					143.75		
	Supplies for stores			617.00					501.33		

CHART IX—*Continued*

Appropriation		Est. for 1924			Ann. Ex.—Sal. and Wage				Actual Ex.	Approp.	
					Oct. to Mar. 31, '23		Oct. to Dec. 31, '22				
Code No.	Title and Detail	Rate Wage or Price Unit	No. Emp. or Qual. Supp.	Amt.	No Em.	Amt.	No Em.	Amt.		1st Half	2d Half
1 D 1	Personal service:										
	Auditor		1		1		1				
	Deputy Auditor		1		1		1				
	Asst. Auditor		1		1		1				
	Chief clerk		1		1		1				
	Bookkeeper		1		1		1				
	Asst. Bookkeeper		1		1		1				
	Bookkeepers		6		5		5				
	Record clerk		1		1		1				
	Examiners		1		1		1				
	Clerks (license and assessments)		4		3		4				
	Occupation tax deputy		1		1		1				
	Occupation tax clerks		9		7		7				
	Stenographer clerk		1		1		1				
	Messenger		1								
	Total		30		25		26				

4. A statement of the reasons for the proposed increases in expenditures. Statements of this kind might be given orally, but they should be in writing, stating, for example, that the requested expenditure is for a new ambulance, or for a new system for filing, etc.

TABLE VIII

CINCINNATI: COMPARISON OF FUND EXPENDITURES FOR THE LAST TWO FISCAL YEARS

	1922	1921
General taxes	$ 106,385.06	$ 57,879.43
Undistributed funds	.....	1,420.88
General fund	397,440.25	431,588.87
Public-safety fund	2,411,080.75	2,615,396.45
Hospital fund	708,701.36	775,172.72
Infirmary fund	77,740.88	85,126.82
Health fund	141,808.24	162,859.06
Park fund	115,528.31	192,620.31
University fund	350,734.88	464,360.40
Observatory fund	37,380.25	42,344.48
Public-service fund	1,419,875.53	1,872,690.39
Police-relief fund	130,784.32	139,533.72
Firemen's pension fund	153,780.94	161,565.36
Total exclusive of waterworks	$6,051,240.77	$7,002,558.89

5. A schedule of what it is necessary for the department to do. This is in the nature of a work program, which was treated in another connection. Such a program is desirable because it aids in the formulation of a general municipal work program.

6. A statement of pay-roll increases or additional payment to present employees. These should

be separate so that the revising authority may know whether or not the number of employees has been increased, or the salaries of the present employees raised.

7. A statement of the total revenue from taxes. This should contain the estimated revenue from taxes for the ensuing year; see Table IX.

TABLE IX

CINCINNATI

1910	$2,638,315.69
1911	2,822,522.63
1912	3,057,734.57
1913	2,961,102.11
1914	3,264,407.07
1915	3,288,605.22
1916	2,895,412.26
1917	3,087,506.88
1918	3,767,018.80
1919	4,007,092.16
1920	3,190,042.33
1921	2,313,322.10
1922	$3,977,418.00
1923 (est.)	

8. A statement of revenue from other than taxes. Table X is a form set up by the city of Los Angeles, and Chart X is one for the city of Cincinnati.

9. The amounts required for interest on the city debt and for sinking fund. This statement should be in considerable detail:

Resolved: By trustees of the sinking fund of the City that the sum necessary for interest and sinking-fund purposes to be fixed by the said board for the said city for the year 1924 is:

For sinking fund for payment of bonds issued by corporation	$1,606,785
For payment of interest on all such bonded indebtedness	1,812,616
For rents	10,000
For expenses incident to management of sinking fund	$3,429,401

One-half of the above amount being payable at the first semiannual settlement of taxes, and one-half at the second semiannual settlement of taxes in the year 1924.

A. For flood-relief bonds		
Redemption of bonds	$3,266	
Interest	5,625	$ 8,891
B. University bonds		
1. Issued prior to June, 1910		
Redemption } Interest {		28,794
2. Issued subsequent to June, 1910		
Redemption } Interest {		28,027
C. For rapid-transit bonds		
Redemption } Interest {		$274,373

etc., etc.

TABLE X

Business licenses	$ 1,250,000
Dog licenses	75,000
Permits, etc.	500,000
Police-court fines	1,000,000
Fees, charges, and sales	750,000
Forfeiture penalties	35,000
Franchises	300,000
Rents	35,000
Interest	350,000
Salvage	5,000
	$ 4,300,000
From taxes	10,700,000
	$15,000,000

CHART X

CITY OF CINCINNATI: AMOUNT OF MONEY RECEIVED FROM ANY SOURCES OTHER THAN TAXATION AND AVAILABLE FOR ANY PURPOSE IN EACH OF THE LAST FISCAL YEARS, TOGETHER WITH AN ESTIMATE OF THE PROBABLE AMOUNT THAT MAY BE RECEIVED DURING THE COMING YEAR, FROM SUCH SOURCE OR SOURCES

From What Other Sources	Est. Amt. Coming Yr.	1922	1921	1920	1919	1918
Liquor tax						
Cigarette tax						
Collat. inher. tax						
Direct inher. tax						
Occupation tax						
Automobile tax						
Franchise tax						
Viaduct rentals						
Interest						
Licenses						
Court fees, fines, and costs						
Public baths						
Rents						
Sale of mats, etc.						
Bd. maintenance and pay patients						
Penalties						
Miscellaneous						
University and observatory						
Loans and bonds						
Police relief						
Firemen's pensions						
Totals						

Los Angeles uses the statement of requirements shown in Table XI for the payment of maturing portions of the principal, and of interest on the bonded indebtedness.

TABLE XI

Date	Name of Bond	Principal	Interest
1895.....	Public school	$7,650.00	$4,647.38
1895.....	Central police	1,000.00	607.50
1895.....	Water system	750.00	455.63
1897.....	Refunding	6,750.00	4,050.00
1898.....	Fire	3,750.00	2,475.00
1898.....	Bridge	$ 575.00	$ 379.50
Etc.			

Total requirements for principal..... _____
Total requirements for interest..... _____
Total requirements for principal and interest.... _____

10. The total outstanding city debt with maturities of bonds, such as the following:

STATEMENT OF BONDED DEBT AT END OF FISCAL YEAR 1921–22

Purpose of Issue, Date of Issue, and Maturity Name of Bond	Rate of Int.	Auth. Less Can.	Sold	Amt. Redem.	Outstanding

Or

Purpose for Which Issued	Rate of Int.	Date of Issue	Orig. Amt.	Date of Mat.	Amt. Outstan.	Amt. Neces. to Issue

11. Any other information that may be required by the council. In this classification, there might be a tentative budget; see Table XII.

TABLE XII

LOS ANGELES: TENTATIVE BUDGET ESTIMATES, 1923–24

Fire department	$ 2,224,276
Police department	3,315,270
Engineer	4,356,344
Police and fire pension (reserve)	1,243,092
All other departments	4,383,236
Total	$15,522,218
Additional request by police department	$ 658,630
Additional request by fire department	$ 892,900

THE TENTATIVE BUDGET

The materials then go to the budget-making authority. This authority calls in administrative officers for advice and suggestions, and then prepares, with the assistance of its staff, a tentative budget. Now that we have arrived at this budget-making authority, of which mention has frequently been made, it might be well to consider what composes it. The committee or agency in connection with the fiscal organization has been spoken of in a previous chapter of this study. The agency is known by as many names as there are cities making use of its services. In New York, it is called the Committee on Estimates and Apportionment. In some municipalities, it is

composed of members of the council called a finance committee; in other cities, it is made up of executive, legislative, and administrative officers. For our purposes, it is sufficient to note that they have in their hands the making of the budget. The task falls upon them, then, to prepare a tentative budget, in order to present data to the public. In some cities, hearings are held on the original estimates even before these estimates have gone into the hands of the budget-making authority. This is an unnecessary and unsatisfactory practice, because the information at hand deals only with one side of the budget, namely, the expenditures. The revenue side has not then been presented. The tentative budget should cover both the expenditures and the means of financing them.

In a municipality, the tentative budget should be published in the newspapers or in pamphlets for distribution, in order that the public may have an opportunity to examine it intelligently, and be ready for satisfactory discussion in public hearings. It is not necessary that the budget-making authority should go into great detail in listing the items, but it does appear reasonable that the tentative budget should be in comparative form, with the actual budget of the previous period in a position for comparison. The proposed expenditures for both services and materials should be shown, and the total amount compared with the total amount of revenue which the city has available. It may be that the municipal-

ity will not have funds sufficient to satisfy the desired expenditures. In this case it will be necessary to supplement the tentative budget with proposed sources of revenue, and in this way the two sides of the budget, namely, expenditures and revenues, will be brought before the public.

CHAPTER IX

THE BUDGET AND PUBLIC INTEREST

THE BUDGET EXHIBIT

One writer has pointed out that the primary function of a budget exhibit is an effort upon the part of public officials to secure the support of public opinion for the betterment of civic affairs. It is a graphic presentation of the need for municipal improvements; an effort to secure the co-operative interest of the passive many, and to counteract the selfish interest of the active few, for the good of municipal progress.[1]

New York City has probably done more than any other city in an effort to arouse public interest in the question of the budget. Citizens' co-operation in the making of budgets has become of great interest in that city. The following comments indicate the method of approach followed when the question of budget exhibits was taken up about fifteen years ago. When the idea of the budget exhibit was carried through, in 1910, in New York City, a great deal of interest was expressed both by metropolitan newspapers and by the press of other cities. New York went about it with considerable enthusiasm, setting

[1] J. H. Braddock, "Some Suggestions for Preparing a Budget Exhibit," *Annals*, LXII (November, 1915), 148.

aside a space of 45,000 square feet where 350 booths were installed, and the undertaking was financed with $25,000 appropriated by the board of estimate and apportionment. It was designated as "a sort of metropolitan fair, organized with the object of encouraging and promoting tax paying." The whole idea was to secure economy. It was not a political move. The purpose of the exhibit was to answer some criticisms and to lead to others. The administration sought to prove that the taxpayers of New York City were getting far more for their money than the people of any other city in America. So said the *New York Evening World.* The *New York City Financial American* thought that the exhibit was the "most persuasive and instructive manner of enlightening citizens in regard to the budget and the necessities from which it arises. . . . ." The *Atlanta Georgian* spoke of the exhibit in this way:

> New York City's Budget Exhibit is designed to show the tax payers of New York how their money has been spent in conducting the affairs of the city and how it is to be spent.
>
> It educates the tax payer and at the same time renders him less uneasy about municipal expenditures. Whenever one pays out money as taxes, one is immediately seized with that show me feeling as to how it is to be spent.
>
> Publicity for public work and expenditure of all kinds is growing in demand everywhere. Its benefits are twofold. It prevents graft and it educates the people in community needs and community activities.

The *New York Globe* thought that an

> influence permanently making for good government is created when there is hammered into the average consciousness the fact that the family annual contribution to the upkeep of the municipal machinery is $160. The delusion still too much persists that some one else pays the taxes.

The *New Haven Journal-Courier* in a somewhat facetious tone welcomed anything that would help to understand New York: "To once understand New York in all her moods and tenses would be to obtain a liberal education in the cussedness of the human animal. New York holds the secret, but it has never been divulged." In a somewhat milder tone, the Boston *Christian Science Monitor* thought that the purpose of the budget exhibit was "to show where necessity exists for expenditure, and why the various departments ask for so many millions." The *Brooklyn Eagle* suggested that the people of Brooklyn go over to New York City and find out about their own city. After pointing out the necessity for the taxpayers to familiarize themselves with the proposed expenditures, and to lodge protestations before their money was spent, this metropolitan newspaper expressed doubt as to whether or not citizens generally would avail themselves of the opportunity thus offered. It had hopes, however, that the budget-exhibit idea would produce a few students upon the subject, who would be instrumental in spreading the knowledge of the uses of the tax funds so that there

would be little opportunity to divert money for political rather than public purposes, and that the exhibit would tend to prevent reckless waste of public funds, such as was possible under the old system.

The *New York Evening Mail* urged the people to "go to the citizens' budget exhibit, and so contribute your share to the task of removing the chief cause of waste and graft—public ignorance, and the opportunities and irresponsibilities that it breeds." The *Philadelphia Record* thought highly of the budget-exhibit idea. It called attention to the fact that this was an attempt by a municipality to point out the operations of a city government in miniature, and to inform the citizens why it wanted their money and what it was going to do with it. The use of exhibits and lectures would not make municipal experts of the whole population, it was admitted, but it would serve to make the people better judges of the efficiency of the city administration.

The *Boston Herald* noted that the first two days of the budget exhibit attracted 100,000 people. It is a "great educational course in municipal economy which ought to be duplicated in every city." The *Bridgeport* (Connecticut) *Telegram* emphasized the fact that this was a new method of urging the citizens to take an interest in public affairs, in that all they had refused to listen to on public platforms, all that they had declined to read in newspapers and books, was distinctly spread before their eyes and they could not escape.

Municipal Facts touched upon a different side of the question:

> The very exhibit itself is proof conclusive of the fact that the day has gone by when the budget was fixed with a merely perfunctory "by your leave" to those who chiefly lost or profited by its provisions. It not only marks the emancipation of the taxpayer. It signifies that public office in New York City is being considered a public trust by office holders.

Such, then, will indicate the attitude of the press toward New York's effort to bring the budget to the attention of the people. The extracts indicate the optimism with which the idea was received. By means of the press, information respecting budget exhibits was spread throughout the country, and the result was a marked interest in city budgets everywhere, especially during the immediately following years. In 1913, in order to obtain popular approval for an increased tax rate which was found necessary, Cincinnati resorted to the budget exhibit as a means of education. For two weeks, an official exhibit was held along the lines of the New York exhibit, and 100,000 people attended. The result was an overwhelming approval of the additional tax.

But attention to the budget exhibit should not be confined to large cities. The task can be performed to advantage in smaller municipalities. For example, in 1913 the small town of Ossining, in New York state, held a budget exhibit with very gratifying results. What can the small city learn from the

large city in the matter of budget exhibits? The New York program was put on in a large way. There is no occasion for the smaller cities to be discouraged because of their inability to perform the task on a large scale. The extent and cost of advertising, for example, might be reduced if the appeal for interest in the budget were directed only to those especially interested in civic affairs. Cities of smaller size should attempt an exhibit on a small scale; each city must decide for itself what it desires to do in order to meet its own local conditions and problems. An exhibit smaller even in proportion to the population and one designed to furnish information respecting the points immediately in view might readily secure the desired objects, namely, to render dismal or cheerful facts vivid and interesting to the population in a way no printed or spoken eloquence can equal; to instruct the taxpayers as to the manner in which the money is being spent and how it is proposed to spend it; to create an interest in the development and growth of a city; and to render a real and very great educational service to the citizens.

It would appear that in order to think intelligently about the work of a city government, it is necessary that the work be broken up into as many units as there are services to be performed. The citizens of a community are not so much concerned that the general activities of the administration be at the highest point of efficiency; rather, they are

concerned that the police department, the department of public health, the schools, etc., should be conscientiously administered. Because of this fact, there is no better way to study the activities of the various divisions than to indicate the expenditures by pictures, charts, or graphs, such as are employed in an exhibit. The citizen is thus enlightened respecting the quantity and quality of the services rendered in each division. Each taxpayer is consequently enabled to visualize the work done in the directions in which he is most interested. In this manner he becomes interested in the whole of the activities of the city government. In 1913, Mr. Bruère pointed out the fact that a budget exhibit gave publicity to city business. For years it has been exceedingly difficult to induce reporters to write interesting stories about city facts and figures, but lately, owing in a large measure to budget exhibits, a great deal of space, in metropolitan newspapers especially, has been devoted periodically to city affairs, because of the increased interest of citizens.[2]

THE USE OF THE PRESS AND EFFICIENCY PUBLICATIONS

The press throughout the country has performed a marked service in bringing the conduct of the city governments to the attention of the taxpayers. In New York City, as well as in other cities, the news-

[2]Address of Henry Bruère at a budget exhibit in Ossining, New York, March 1, 1913.

papers follow the budget through its various stages, informing the public as to what is being done. During the summer of 1922, the papers were full of information respecting the progress of the budget. Stories such as the following were common:

> The department of finance today announced that the tentative budget for 1923 totaled $359,404,318, an increase of $6,119,427 over the budgetary requirements for 1922. Experts of the finance department believe that with the $771,000,000 increase in personal and real estate valuation for 1923, the tax rate for 1923 will probably be the same or lower than 1922.

The co-operation of the newspapers is invaluable in this respect, since they can urge those who are interested to be present at budget exhibits, and can point out to the taxpayers the importance of certain items. The budget exhibit has been only one means of bringing the public attention to the budget.

Springfield, Massachusetts, made a determined effort to obtain the co-operation of the public in the matter of budget-making, especially about 1912. Most of its propaganda was carried on by pamphlets, which were issued whenever the budget was being considered. These pamphlets announced that public budget hearings were open-house meetings by the appropriating officials of the city, at which taxpayers, citizens, individuals, organizations, and civic societies might express their opinions about expenditures and appropriations; make suggestions relative to spending of taxes; designate things that they

prefer their taxes to buy before appropriations for expenditures; support allowances or disallowances by the mayor and finance committee; disapprove allowances and disallowances; suggest where further cuts may be made; advocate new things to be done; request work normally done to be increased, curtailed, or abandoned; indicate preference for one kind of work over another; and learn what is intended to be done with appropriations.[3]

For some years, the city of Springfield continued to arouse the interest of the citizens in the idea of the budget. Of late, that effort has abated to such a degree that the writer was curious to get first-hand information as to the reasons therefor. It was found, upon personal inquiry, that the Bureau of Research, which had existed up to about eight years ago, had gone out of existence, and practically all effort to create a public interest had gone with it. In the first place, the idea of the Bureau was to secure a budget for the city. That accomplished, thereafter nothing was done. At the present time, in Springfield, there seems to be a tendency to go to the other extreme, and although the records are available at all times for public inspection, no effort is made to take the information to the public.

The interest in budget exhibits and the use of pamphlets in disseminating information to the public has abated in many localities. This is to be expected, because the exhibits require a great deal of

[3]Springfield, Massachusetts, *Publications*.

time and considerable expense. Either method, however, is a very effective means of acquainting the citizens with municipal facts. Just as soon as the administration desires an increase in the tax rate, the co-operation of the public will be sought in either of the above ways. The interest is therefore spasmodic, and is likely to be intense or lukewarm, dependent upon the condition of city finance.

Though the interest of cities may wane in respect to the matter of budget exhibits, there still remains to the citizen a means of showing his interest in municipal revenues and expenditures. This is public hearings.

PUBLIC HEARINGS

Unfortunately the value of the public hearings on the budget is not appreciated by the public. While many of the states and municipalities require that public hearings be held at some time during the preparation of the budget, little advantage is taken of the opportunity on the part of the public. The purpose of the hearings, of course, is to give the public a chance to object to the program of the budget-making authority before the project gets before the agency which is empowered finally to pass upon it. It should be the desire of those who are responsible for the making of the budget, be they executive or administrative agencies, that the public be taken into their confidence. The whole budget program is largely dependent upon the public and its willing-

ness to satisfy the tax demands. The public should be fully informed upon the issues involved and the time of the public hearings upon the tentative budget.

Again, note the experience of New York City in this respect. At the time of the adoption of the first budget in that city, information such as the following was issued, in order to indicate to the public the possibility of citizen co-operation in budget-making:

The first budget, under the provisions of the new city charter, is now being prepared.

For the first time, citizens are given definite and specific opportunity to participate with public officials in the preparation of the budget, through the charter provision which requires that the tentative budget which is submitted by the chief administrator to council, shall be printed and a public hearing held thereon before final action is taken by the council.

The passage of the budget fixes, within certain limits, the activities of the city government for the coming year and the purpose of the public hearing is to afford opportunity for the citizens to participate with the officials in deciding upon the policy and work program to be followed. The character of the budget determines whether the city runs into debt, whether certain activities are curtailed or expanded, or whether unmet community needs are provided for. Important questions of public policy which virtually affect the welfare and happiness of every citizen must be decided at budget making time. Alternatives like the following are constantly presented:

Shall we have more police service or more library service? Shall we have more recreation facilities or more garbage collection service? Shall we have more hospital service or more streets repaired?

The tentative budget which is submitted by the chief administrator is subject to revision by council which "may add to or increase items of the budget upon the approval in writing of the chief administrator or by vote of seven of its members."

Citizens interested in particular services will have an opportunity to be heard at the public hearings and to present arguments for revision of the tentative budget figures.

From an observation of about fifty cities throughout the United States, the following information in respect to public hearings was gathered: In answer to the question, Are public hearings held in the preparation of the budget? twenty-one answered "No"; twenty-two answered "Yes"; the remainder gave no answer. We must conclude, therefore, that the attitude of the cities is about evenly divided. It is gratifying to find that many cities hold public hearings on the preparation of the budget. Fortunately, very few of them hold hearings on the original estimates; a goodly number receive the criticisms and recommendations of the taxpayers on the revised budget. To have hearings at this stage is a good time-saving arrangement.

Are public hearings held on the original estimate or on the tentative or revised budget? Five cities replied that their public hearings were held on the original estimate; twelve on the revised budget; four on both the original and revised; and the remainder gave no answer, or the question was answered in the reply given to the previous question.

Is the budget published before the hearings? To this, twelve cities gave an affirmative answer, and twenty-five gave a negative answer; no satisfactory reply was obtained from the remainder. It is rather unfortunate that more of the cities do not publish the budget before they allow public hearings. The published budget should be in the hands of the public, either in newspaper or pamphlet form, so that the taxpayers may have an opportunity to study the program, and thus be in a position to criticize or recommend in an intelligent manner. Cleveland distributed about a thousand copies.

Is there any considerable public interest? To this, Bristol, Virginia, and San Francisco answered "Yes"; San Jose, California, noted a very slight public interest; St. Louis, Missouri, reported "considerable" interest; Seattle observed "fair" interest; in Spokane, certain civic bodies took an interest in the preparation of the budget. Twenty-five of the cities stated that there was no public interest in the preparation of the budget, and some of those were most emphatic in their replies.

The second group of questions respecting hearings on the budget were as follows:

Are public hearings on the budget held by the legislative body? To this, twenty-two answered "Yes"; twenty-one "No."

Are public hearings held by committees of the legislative body? Twenty answered in the affirmative; fifteen in the negative. Of the two methods,

it would be far more expedient if the hearings were held by committees of the legislative body. This plan would not consume the time of the legislature, and practically as much would be accomplished in meetings before committees.

In respect to hearings before the legislative body or the committees, the question was asked, Is there any considerable public interest? Bristol, Cincinnati, and Indianapolis answered that there was; San Jose, Seattle, and Tacoma noted a very slight public interest in their public hearings; San Francisco pointed out that there was "great" interest; twenty-four cities reported "no interest at all."

The answers to the third group of questions were as follows:

After the hearings have been closed, can the budget be increased by the authority responsible for gathering and revising the estimates? Twenty-one answered "Yes"; eighteen "No."

May the budget be increased by the legislative body? To this, twenty-two replied in the affirmative and thirteen in the negative. Of the two methods, it seems reasonable that the budget might be increased by the legislative authority, rather than by the authority responsible for gathering and revising. Time would be saved by this practice.

The most encouraging thing about all this is the fact that public hearings are held in one form or another. Altoona (Pennsylvania), Cambridge, Kalamazoo, Kansas City (Missouri), Salt Lake City,

Scranton, and Springfield (Massachusetts), eleven out of forty-five cities, reported that public hearings were not held on the preparation of the budget, or on the original estimate, or on the tentative or revised budget, or by the legislative body or its committees. It appears, then, that in these places there is absolutely no possibility of the public's being heard on the question of the budget. It will be noted that the cities enumerated are scattered throughout the country; the list includes all classes. One can account for this failure to take the public into the confidence of the administration only on the ground that the cities, for the most part, are those which have done comparatively little in municipal reform. One should except from this cities like Los Angeles and Springfield. In the latter place, as noted above, there has been a complete reversal of sentiment in respect to public co-operation. This the writer learned from personal contact. The officials of Springfield were most emphatic in stating that there was no such thing as public interest in the budget. However, the public is entitled to go to the auditor's office and inquire as to the budget process and the methods of keeping the books. This is rarely done. In Boston, Mr. Craven, who was at one time head of the budget-making and who is now city auditor, stated that there was positively no interest on the part of the public in the matter of the budget. He thought it was a waste of time to attempt anything along the line of the budget exhibit, or to try to

create a public interest by way of public hearings. Deputy Auditor Ashley of Los Angeles, and many others, were of the same opinion.

It is interesting to observe that most of the cities that reported an interest in public hearings are those of the far West. An attempt was made to account for this, and one can find no reason unless it be the fact that women have more power in the matter of municipal government in that section than in other parts of the country, or because of the fact that tax rates are exceptionally high.

But the lack of interest in public hearings seems to exist throughout the country. The following extracts are of interest. In New York City:

> The taxpayer's hearings, in other words, intended to give the taxpayers an opportunity to offer practical suggestions and to take a hand in making the budget, were mainly opportunities for civic agencies and city employees to make special appeals for increased expenditures—appeals which have been without avail. Not only were the taxpayers poorly represented at the hearings, but the arguments advanced by those who did appear seemed to be without force.[4]

Rochester, New York, as well as many other American cities, has had experiences similar to that of New York City:

> This great display of public interest ? in the Government's work program was almost overpowering. It

[4]Bureau of Municipal Research, *The New York Budget* (August, 1917), p. 62.

made for much secret and public cogitation on the part of those of us who were among those present. What was the reason for it? The answer is quite obvious. The lack of anything human, understandable, or interesting in the tabulation of figures that constituted the proposed budget.[5]

The city manager of Dubuque, Iowa, said in respect to public hearings:

The matter of a public hearing of the budget is one of the features which the theorist emphasizes most. It is important to arrange a public hearing of the budget as submitted after publication in the newspapers in order that no citizen may say that he had no opportunity to say how his money should be spent. In eight years experience, however, I have yet to attend a public hearing on a budget where more than two or three people were present. As a rule, aside from the city officials, not one citizen is present.[6]

To summarize the essential methods of disseminating budgetary information, we may say:[7]

1. The budget must contain a brief explanation, calling attention to the questions of chief public interest, in addition to the financial summary and the detailed supporting data.

2. The budget should be published for public distribution.

[5]J. W. Routh, "Humanizing the Budget," *National Municipal Revenue,* November, 1919, p. 598.

[6]O. E. Carr, *New Jersey Municipalities* (January, 1922).

[7]L. H. Gulick, *New Jersey Municipalities* (no date).

3. No effort to secure publicity for the budget, whether through the press or through public gatherings, should be overlooked.

4. There should be a public hearing on the budget.

5. A budget exhibit should be held by the city administration.

CHAPTER X

FINAL STEPS IN BUDGET PROCEDURE

THE BUDGET AND THE APPROPRIATION ORDINANCE

Although the budget in municipalities is taken as the basis of a program for the ensuing year, it is usually not the budget itself that is presented to the legislative body for approval. An appropriation bill is submitted in its place. The budget may be and often is the only document presented to the legislature, but more commonly the appropriation ordinance alone is presented. It appears that the better practice, and a practice which is widely followed, is not to set up the budget in the form of an appropriation bill, but to prepare both a budget document and an appropriation bill. This is necessary because the legislature is entitled to considerable detailed information, which should not be in the form required in an appropriation bill.

Cities should follow the states in the practice of having two documents or sets of documents—one the budget, which sets up the complete financial plan and is purely informational in character, and the other the appropriation, tax, and borrowing ordinance, which present the budget plan in the legal form necessary to put it into operation.[1]

[1] A. E. Buck, *Budget Making*, p. 136.

The drafting of the budget ordinance is usually done by the legal adviser of the city, who is known as city attorney, city solicitor, or corporation counsel. When the comptroller or the mayor revises the estimates, he sometimes drafts the ordinance as well. When full power is in the hands of the council, the ordinance may be drawn up by the chairman of the committee which is supervising the budget. The form in which the appropriation bill is set up is of importance. It is often the case that merely a list of the estimates is submitted in the form of a budget ordinance. Needless to say, this form lacks the unity and coherence that should exist in a bill of this kind. The point is that there should be a single appropriation bill, and not a group of different bills; the appropriation bill should require one appropriation act, and if there are other appropriation bills, let them be considered as supplementary to the original appropriation bill.

For a long time, New York City had considerable difficulty with the difference between the budget and the appropriation bill. The charter originally provided that duly selected authorities should each year prepare and submit a "budget" to the aldermen, and that public hearings should be provided for. There was a general understanding that the instrument which was to go by the name of "budget" was the annual appropriation bill. The falsity of the above was pointed out by the Bureau of Municipal Research, which stated:

The budget is primarily an instrument of information and not an appropriation bill; that it has to do with "planning" and with "publicity,"—informing the appropriating body and the public with respect to what is proposed and what is the estimated cost, and how this cost is to be met through revenues or borrowings.

What happened in New York City was this. Because of the confusion between the act of appropriation and the budget, all of the information that was commonly placed in the budget was placed in the appropriation bill, since in submitting requests to the aldermen there was more of an opportunity to prove that the requests were reasonable. It is said that the act of appropriation in New York City had grown into several hundred printed quarto pages. A comparison has been made with Great Britain. While the British budget and its supporting data required four large printed quarto volumes, the act of appropriation, or act based upon it, required less than twenty printed pages.

The Bureau of Municipal Research then proposed that, instead of having an appropriation ordinance that required several hundred quarto pages of print, it should reduce the bill to the following simple formula:

"Be it ordained . . . . that the Board of Aldermen hereby appropriate . . . . for the ensuing year, 19. .., $..... which amount shall be the limit of obligations which may be incurred by officials of the city and which shall be available for purchases and payments as follows: $..... for salaries, wages and other claims for

personal service; $..... for the purchase of supplies; $..... for the purchase of materials; $..... for the purchase of equipment, etc."

Thus stating the totals available for all departments of the city in broad classes of things to be bought and paid for. Then would follow this clause:

"The amounts of contracts and other obligations which may be incurred . . . . by each of several departments . . . . shall not exceed the amounts for each object set forth below."

Following this would be a similar classification to that set forth above for each department. This would reduce the act of appropriation to about ten pages although the budget, with its supporting data, might run to a thousand pages of printed matter.

A section of the city charter should be devoted to bringing out the distinction between the budget document and the appropriation ordinance, as well as providing for the use of a budget in the first instance. The budget section of the charter should be brief. A committee of the Governmental Research Conference on standard budget sections for charters recommended that the purpose of the sections should be to fix responsibility for the making of the budget, and for the control of expenditures. It held that this could be accomplished by providing in the charter for two documents: (1) the budget document, the purpose of which is to supply detailed information, and (2) the appropriation ordinance, the purpose of which is to summarize the budget document for the fixation of responsibility and control.

The committee further recommended that the

following documents should be submitted to the council:

1. A budget document, containing detailed estimates required by them and furnished by the several departments and other divisions of the city government.

2. A general appropriation ordinance, containing a summary of all proposed expenditures set forth in the budget documents.

3. Revenue measures, if any, covering recommendations in the budget for additional revenues by which the proposed expenditures are to be met.

It is a fact that in many cities the lengthy and detailed budget document and the appropriation ordinance are one and the same instrument; in some, a document is prepared that is a cross between the two. Many cities have made the distinction. Kalamazoo, Michigan, used the following plan for 1922:

Resolved, That the appropriation schedule hereto attached is hereby made the annual appropriation resolution for the year 1922 to cover the expenditures for the said year, etc.

The Governmental Research Conference committee, to which reference has been made on several occasions, has recommended the following appropriation ordinance:

Not later than the beginning of the fiscal year the council shall pass an annual appropriation ordinance, which shall be based on the budget submitted by the city manager (or mayor). The total amount of appropriation shall not exceed the total amount of estimated expendable resources of the city. No liabilities shall be incurred by any officer or employee of the city, except in accord-

ance with the provisions of the annual appropriation ordinance or under continuing contracts and loans authorized under the provisions of this charter.

FINAL STEPS IN THE PASSING OF THE BUDGET

After an appropriation plan has been worked out, the next step in budgetary procedure is the adoption of the budget by the council. The budget is transmitted to the city council by what is known as the "letter of transmittal." This is done by the city manager or the mayor, according to the form of government used. The following is a letter of transmittal used in Bristol, Virginia:

GENTLEMEN:

Pursuant to the provisions of the charter of your city requiring that a budget shall be presented to your honorable body at least sixty days before the end of the fiscal year, I take pleasure in presenting to you such a budget for the fiscal year beginning July 1, 1920.

[Then follow explanations of headings, comparisons of previous expenditures, increases in the rate of taxes on property, explanations of increased costs, failure of the revenue to approach pre-liquor days, etc. Then follow recommendations respecting the method of presenting the proposed work program to the citizens.]

Respectfully submitted,

R. W. RIGSBY, *City Manager*

The message of the mayor, in Boston, recommending appropriations and tax orders for 1922–23, was as follows:

To the City Council:

GENTLEMEN: I beg to submit herewith the budget for the year 1922–1923, in full segregated form, in substitution for the budget submitted on February 27, 1922.

[Here the mayor calls attention to the needs of city streets and recommends the issuance of loans.]

I respectfully recommend the early adoption of the budget.

Respectfully,

JAMES M. CURLEY, *Mayor*

After the council has received the budget, the procedure then includes various readings after the committee has made its report, discussion in the council, the call for votes, and lastly, final publication. That this did not take very long in 1893 is pointed out by Mr. Clow, who describes the procedure in Chicago:

In 1893 the city council of Chicago passed the appropriation ordinance on March 27. After a large amount of other business had been disposed of, covering thirty pages in the printed proceedings, the council took up the special order for the evening, the consideration for the first time of the report of the committee on finance on the appropriation for 1893. Twenty-one proposed changes were defeated; four items were reduced; three were increased; one item was divided into four. Before that session adjourned the budget carrying $11,810,969 in over five hundred items had been enacted.[2]

Since that time, however, considerably more time is given to a consideration of the budget. The large increase in the budget items, which in some cities runs

[2]F. R. Clow, *City Finances in the United States*, p. 44.

up into thousands, has necessitated more careful scrutiny of the amounts composing the items. The responsibility of the council to the people has created a desire on the part of that agency to accord with the taxpayer's will in so far as possible. The rapidity with which the legislative body can dispose of the budget program is increased to some degree, it must be said, by the substitution of the single-chamber council for the double-chamber council. This change has come about in all leading cities within recent years. The commission form of government has hastened this movement, and the simplified legislative organization has led to better financial planning and greater legislative efficiency. Since it is recognized that the bicameral form of city government has practically passed away, there is no occasion for noting the budget procedure under that form. All discussion of the budget can therefore be confined to the one legislative body. The budget should come up for approval shortly after a new administration comes into office, and should be prepared and passed by them. Unfortunately, the old practice of having the budget prepared by the outgoing administration and in some cases having it passed by that same administration still prevails in many localities. There is no advantage in this arrangement except to embarrass its successor. The change could be effected by little more than charter provisions.

When the budget comes up for legislative consid-

eration, it should be presented to the body by some executive in authority, preferably the mayor. It might consist of an outline of the plan proposed for legislative approval, and a presentation of arguments in support of the program. If the budget be in the hands of a finance committee, the budgetary speech might be made when the material is presented to the council. It is important that the budget should be presented to the council in an effective manner.

In thirty-nine of the cities which were studied, the legislative power can decrease the amount of the budget. Akron, Bridgeport, Phoenix, and Scranton stated that the legislature did not have the power so to do. The municipalities are more evenly divided on the matter of an increase on the part of a legislative body. Twenty-eight permitted the legislature to increase the items, and fifteen denied them the privilege. These increases are subject to limitations. The usual limitation is to the extent of the estimated revenue, but Hartford, for example, limits to the amount of $25,000.

In many cases recommendations are made to the legislative body by its committee. This was found true in twenty-three places. In fifteen cities these recommendations were not made. After the budget is in the hands of the legislative body, there is considerable discussion upon it by that body in twenty-three cities, whereas in thirteen others the answers were "generally," "very little," "at times," "a reasonable amount," etc. In twenty-five municipalities,

the chief executive authority may veto appropriations which have been approved by the legislative body, and in fifteen cities there is no veto power. Sometimes the mayor may veto the whole budget or any item thereof. In case of veto by the mayor, the charters provide for passing the budget over his veto by an appreciable number of the council. Sometimes the form of government is such that there is no executive authority to veto.

After the budget has been approved, the recommendations as made are not always followed to the letter. In fact, it is far better practice to make allowances for contingencies, which are sure to arise in the best-managed systems. Most cities provide for transfers of money from one appropriation to another, as a means of correcting the budget. This is designed to remove possibilities of an overdraft, and to enable an organization unit to make use of a surplus of one account for another. Some states forbid this practice for some cities, and other states forbid the practice altogether. Where the procedure is allowed at all, the law usually requires that transfers must be made with the consent of the mayor and a majority of the council.

After the budget has been passed and the appropriations made, there are various methods whereby additional appropriations may be made, or existing appropriations increased. In Akron, changes in appropriations may be made by the council during the year; in Baltimore, only by an act of the state legis-

lature; in Boston, the mayor may submit additional budgets to the city council up to the appropriation limit; in Bridgeport, changes are made by a special meeting of the board of apportionment and taxation called by the mayor; in Cambridge, additional appropriations may be made up to the tax rate, and thereafter transfers may be resorted to. In Cincinnati, there is no further action after the appropriations have been made; the matter is closed. In short, fourteen cities report that additional appropriations may be made, or existing appropriations increased, by action of the legislative body. Six of the cities mentioned resort to transfers. In three places, the above changes are affected by special ordinance, and in Phoenix, by a bond issue.

Twenty-eight cities report that they set aside contingent or reserve funds for emergencies, and fourteen make no such provision. The amounts set aside, in 1921, were various: Akron, $3,000; Baltimore, $150,000 for the board of estimate and $10,000 for the mayor; Boston, $500,000; Cambridge, $80,000; Cincinnati, $50,000; Detroit, $400,000; Grand Rapids, $60,000; Hartford, $87,535; Kalamazoo, $10,000; Kansas City, Missouri, $12,000; Los Angeles, $350,000; Milwaukee, $200,000; Minneapolis, $15,000 (the mayor gets $5,000 and the council $10,000); Philadelphia, $2,000,000; Phoenix, $5,000; Providence, $50,000; Richmond, 5 per cent of the total anticipated revenue; Salt Lake

City, $49,898.59; San Francisco, $100,000; San Jose, $1,379; Spokane, $25,000; Springfield, $255,409.25; and Tacoma, $20,000.

These amounts are variously controlled, by the manager, commission, council, mayor, etc. In some cities—Cambridge, Hartford, St. Louis, St. Paul, Seattle, and Tacoma—there is a referendum on appropriations, but thirty cities have no such referendum.

In order to avoid too great rigidity, the policy of transfers, if kept within strict limits, should be permitted. As suggested, the consent of the mayor or comptroller or both, and either a two-thirds or three-quarters vote of the council would be a good limitation. It is true that transfers do complicate the accounts to some degree, but they do allow for an unforeseen condition. Under any circumstances, transfers of funds should be permitted within or between departments. Transfers should be vested in an agency, or in agencies, where responsibility could be fixed. A manager who is executive head of a city, and who is continuously responsible to an appropriating agency, could have the responsibility of transfer vested in him. The legislature, in other types of city government, should have immediate and effective control over the transfer of public funds, since such a body is responsible for the public policy of the administration.[3]

[3]A. E. Marks, *Municipal Budget Making.* Unpublished paper.

If transfers are discouraged, there is another method of lending elasticity to the budget, namely, that of leaving a margin of revenue which can be used for exigencies in any department. This method usually provides that a small amount, say 1 per cent or a fractional part of the whole budget, be set aside in a reserve fund, which may be drawn upon with the consent of the mayor and a majority of the council. But a reserve fund requires the city to keep on hand a larger amount of cash than would be necessary were it possible to make use of transfers. If no occasion arises for the use of the fund, it may become unnecessarily large, with the result that it may be used for political or other spoliation purposes.

FINAL CHECK ON THE BUDGET

After the budget has been passed, control must be exercised over its execution. How is this control to be effected? It can best be done by the use of standards, reports, and records. There should be periodic reports in each department engaged in the expenditure of funds. When appropriations are made for a year, there might be a monthly check upon the activities of each division. In order to check upon this, the procedure to prevent lump-sum appropriations from being exhausted before the year has expired should be noted. Akron, Boston, Indianapolis, St. Paul, and Springfield reported that they had no method of preventing this. Baltimore,

Detroit, Grand Rapids, Los Angeles, Portland (Oregon), San Francisco, and Seattle stated that each one in control of funds was checked upon monthly, and during each period was permitted to spend one-twelfth of the total. Seventeen of the other cities reported that a check was kept upon all the expenditures, and this usually through the auditor or comptroller.

The control exercised through the auditor or comptroller is the only logical method to be used. It is difficult to see the expediency of allowing some departments only one-twelfth of their allotment monthly. For example, the health bureau is more likely to spend larger sums in the winter than in the summer, and the same may be said of other departments. The check through the accounting department, with discretion resting in the head of the department, seems the more logical arrangement.

We have spoken of the budget as a means of control on the part of the administration and on the part of the accounting departments. How may the public control the administration? In the same manner, by the use of standards, reports, and records. In conclusion, then, what types of information may the citizen and taxpayer demand?

Prior to the beginning of the fiscal year: a statement of what the administration intends to do; an estimate of the cost thereof; a statement of appropriations; a statement of the amounts necessary to be raised.

During the fiscal year: a current balance sheet; the costs of operation; a comparison of such costs with the cost of similar items for previous periods.

At the close of the fiscal year: receipts; disbursements; balances remaining on hand; annual balance sheet; statement of profit and loss.

Only by checks of this kind is the public able to obtain the greatest benefit from the use of the budget.

In 1922, Mr. Buck emphasized the need for accounts and reports in New Orleans. He pointed out that the somewhat archaic accounting system in that city did not furnish satisfactory information as a basis for budget-making. It did not supply data about past expenditures and financial transactions. The department of public finance did not prepare and publish its annual financial reports until a year or eighteen months after they were due. Consequently the reports were practically valueless either as a source of current information or as a check on bad financial management.[4]

CONTROL IN THE EXECUTION OF THE BUDGET

Certain financial checks which are helpful in order to acquire control have been examined. In conclusion we should bear in mind certain factors which act toward interference with control. For example, care should be taken as to the kinds of appropriations, as well as to the content of appropriations.

[4] A. E. Buck, unpublished investigation.

The following appropriations are those which a municipality should avoid:

1. Indefinite appropriations. There is a tendency, in municipalities, to depart from the policy of appropriating money for indefinite amounts. Indefinite appropriations authorize money to be spent until the purpose for which the expenditure has been made has been accomplished. On this basis it is impossible to set up a satisfactory budget, since it is difficult to determine the approximate amount which will be required. Furthermore, this method removes all possibility of control over expenditures.

2. Revenue appropriations. Appropriations such as this permit revenues from certain sources to be expended for certain purposes. An example that is commonly given is the payment of salaries out of fees. Unless the money received is turned over to the treasury, there is no possible check upon the amount which has been received nor the manner in which it is being expended. This arrangement is unsatisfactory from the point of view of both responsibility and control.

3. Continuing appropriations. These are authorizations to spend which the council grants and which cannot be cut off unless by subsequent action on the part of the legislative body. While the practice is not followed so extensively in the case of municipalities as in the case of state and federal governments, it is nevertheless present and should be for the most part discountenanced. The argument

in their favor is that they assure an institution or an agency permanent support. However, such measures are unsatisfactory for budgetary purposes, and destroy, to a degree, the elements of responsibility and control.

Appropriation measures should be accompanied by revenue and borrowing measures. No budget-making authority can afford to consider the one without the other. If it appears impossible for the expenditures of the city to come within its resources, it is the duty of the budget-making authority to propose the methods whereby new revenue can be raised, or suggest possible changes in tax rates.

There are other factors which interfere with the item of control in the execution of the budget, as well as the appropriations mentioned above. Reference is made to the following: It was found that in fifteen cities, funds or receipts were expended without being appropriated. Twenty-six places did not follow this practice. In twenty-one out of thirty-seven municipalities, the funds never appeared in the budget. These funds or receipts differ in nature: Cincinnati, bond funds; Cleveland, special and trust funds; Dayton, construction funds; Hartford, emergency; Indianapolis, health and charity, parks, recreation, and sanitary; Jackson, miscellaneous expense and emergency; Kansas City, general fund not exceeding $200; Los Angeles, water, power, harbor, sale of bonds, trust fund; Milwaukee, trust fund; Minneapolis, sale of bonds; New York City,

small water revenues; Spokane, water division, pension; Tacoma, interest on utility bonds and sale of city property.

Some of the cities have bureaus, boards, or departments whose appropriations do not form part of the city budget. This is especially true in the case of schools: in nineteen cases the school budget was included in the city budget; in twenty-five cases it was not. As a general thing, the budget-making authority does not have the same control over the school budget that it has over other departments. The school budgets are commonly administered on an entirely different basis. For example, Atlanta gets 22 per cent of the revenue of the city and it is distributed by the board of education; Boston has a school commissioner in charge of appropriations and expenditures; in Cincinnati, the school board has a separate levy; in Minneapolis, the school board makes its own budget and it goes to the board of estimate. In Phoenix, Arizona, the schools are operated by the county. Libraries, waterworks, etc. are often conducted upon the same basis as are the schools.

As a further interference with control, cities are sometimes permitted to expend revenue received in excess of estimates. This was the case in thirty cities; in eight it was not permitted. The procedure differed in each place. In some, it is done by ordinance; in others, by the auditor with the approval

of the mayor, by authority of the council, by deficiency bonds, by additional appropriations, etc.

Whenever the revenue is less than the appropriations, the deficit is often carried over to the next year. Some use deficiency bonds. Denver estimates and makes use of only 90 per cent of its revenue to avoid the above condition. Other cities reduce expenses and make temporary loans, or use contingent funds. Louisville appropriated only 95 per cent of its estimated revenue. In San Jose the department estimates are revised and curtailed to come within the revenue. St. Louis makes use of overdrafts.

As a general thing, department heads cannot exceed their appropriations. It was found that this was done in only nine instances. In Boston, it was done in case of extreme emergency; in Cleveland, by authority of council; in New York, by the department of health to the extent of $80,000. When a department head does exceed his appropriation, the discrepancy is usually corrected by legislative action and transfers. In Philadelphia, an action of mandamus lies against the department head; in Richmond, departments heads and bondsmen are liable. Transfers are accomplished by the council in most cities. In eight places the consent of the mayor or manager is required.

It seems to be the practice in most cities to allow changes in salaries between budget times. Whenever this is done, it is necessary to borrow against the next year's revenue, use transfers or contingent

funds, etc. In New York, the increase is met by special revenue bonds; in Philadelphia, by emergency loans; in Seattle, by deficiency appropriations, and in Tacoma, by cutting down elsewhere.

New York City depends upon the following three devices as a help in executive control: First, the city allows each department to spend no more than a pro rata amount of its salary appropriation in one month. Wages are prorated to weeks. Secondly, salaries are classified according to functions, which show the rates of pay, the positions, etc. Thirdly, it requires twelve votes of the board of estimate and apportionment to effect a transfer.

Of the various items interfering with control, it seems that transfers are one of the most important. Of course, as might be expected, they are handled in a variety of ways. In Toledo, the commissioner of accounts, under the supervision of the director of law, may change the designation of various funds, by number and letter, if necessary, and transfer them. Only one-half of an appropriation may be expended before the first of July unless with the consent and approval of the mayor and director of finance. Transfer of funds from one appropriation to another is permitted with the approval of the mayor, director of finance, and chairman of the council finance committee, or a majority of them, but if the amount to be transferred exceeds $500, the chairman of the finance committee must secure

the approval of a majority of his committee before the transfer can be effected.

In St. Louis, whenever any agency desires to transfer from one subappropriation to any other within the same main appropriation title, he must file with the finance committee of the board of supervisors a duplicate statement setting forth the reason for such transfer, the purpose for which the money is to be used, the subappropriations from and to which the transfer is requested, the amount of the transfer, and any other information which will assist in determining the merits of his request. If the transfer is approved by the finance committee, notice of the approval is sent to the auditor and the department making the request; if disapproved, notice is given only to the latter.

It must be admitted that the possibility of making transfers is very likely to upset the whole effect of the making of the budget. As an example, the effect of transfers in carrying out the provisions of the segregated budget in the city of Boston has been noted elsewhere. To meet this very situation, different proposals have made with a view to the use of transfers, but within limitations. In 1921 a committee of the Governmental Research Conference made important recommendations respecting transfers.[5] It suggested that at any meeting after the passage

[5]See tentative report of the Governmental Research Conference committee, June, 1921; or also A. E. Buck, *Budget Making,* Appendix IV, p. 219.

of the appropriation ordinance and after at least one week's public notice, the council, by a majority vote, be authorized to permit the transfer of unused balances from one appropriation to another, to appropriate available revenues not included in the budget, or to propose additional revenue measures to meet current expenditures. The mayor or city manager should have the power to transfer appropriations up to $200 within departments or divisions without public notice or majority vote of the council. The committee suggested, furthermore, that no money should be spent until the budget and the work program had been completed, so that the necessity for temporary appropriations to tide over the government might be removed. Transfer of funds from one department to another during the year should be permitted by a majority vote of the council. Some writers are of the opinion that administrative transfers within departments should be permitted, provided the amount be kept within strict limits, say $200 or less, and that intradepartmental transfers above $200 should be permitted only upon a majority vote of the council.

CHAPTER XI

THE DEVELOPMENT OF MUNICIPAL BUDGETS

The budget has been adopted in municipalities with some hesitancy. The first suggestions of city budgets were met with ridicule, not only by city officials and politicians, but also by citizens and newspapers. City officials did not welcome the suggestion because they were afraid that it would mean limitations upon their administrative activities. Politicians did not approve of the change because they feared their control of city affairs would be lessened by the increase in the administrative responsibility demanded, and because they disliked the idea of a check on the part of the electorate. Perhaps the possibilities of a budget were overstated by those who sponsored the movement. There seems to be considerable evidence of this. There were those who believed that a budget would cure most of the ills from which our municipalities suffered.

It is generally recognized now that municipal graft does exist in spite of extensive budget reform. It appears, however, that the budget is a device to assist in removing considerable maladministration, and if it accomplishes this it seems worth the effort of installation and administration. Since 1910, the

movement has accelerated to such an extent that the community is indeed backward which does not make use of a budget in one form or another. Certainly at the present time the charters of all our large cities and of a large proportion of the smaller ones contain provisions respecting budget procedure. Opposition by city officials to the budget idea in a large measure has disappeared, and a move on their part to work out the best procedure for the locality is everywhere in evidence. On the one hand, some of our cities which have established the mayor-council form of government have made the mayor responsible for the budget plan by centralizing the administration of the budget in that executive; others have adopted a board containing representatives of both the executive and legislative departments. Manager cities, such as Dayton, Ohio, have contributed a great deal to the development of budget procedure in municipalities. On the other hand, in commission cities the budget commonly does not give the same degree of satisfaction as in the mayor-council or manager cities, for the reason that responsibility is divided, whereas centralized responsibility is most essential in budgeting.

Centralized responsibility is closely related to the element of control. Control in respect to municipalities may be both external and internal in character. Control of cities by the legislatures of their states is an example of the former. Unfortunately it does not seem possible for cities to realize their

limitations. In their eagerness to grow and outstrip their rivals, they overlook many of the important matters in good administration and devote themselves only to those things which make a forceful visual impression. It is a wise provision, therefore, that cities be controlled by the legislatures of their states. First, the state should require that all cities and towns operate upon the budget principle; that is, a program of operations for a fiscal period should be set forth containing statements of anticipated expenditures and of the sources from which these expenditures shall be met. Secondly, it is a question whether a state should place a limit upon the borrowing capacity of cities within its jurisdiction. A definite tax limitation can be placed upon cities without interfering with a flexible budget. It is believed by some that a tax limitation is one of the most desirable methods for control by a state over municipalities. Others are of the opinion that this plan is a bad method of control.[1] The present financial condition of Toledo, Cincinnati, and other Ohio cities and towns would seem to bear out this writer's contention. If supplemented by other methods of control, such as supervision by state civil-service commissions, the restrictions may be considered too burdensome upon the locality. It is not infrequent that cities do complain of too much interference on the part of the state with local autonomy. A tax limitation and the

[1]Raymond C. Atkinson, *The Effects of Tax Limitation on Local Finance in Ohio, 1911 to 1922* (1923), pp. 125–26.

requirement of a municipal budget are not in themselves burdens, but are reasonable requirements for supervision.

Thus municipal administration may be regulated and controlled by the state. After budgets have been installed, it is possible for the citizen to exercise his control over administrators whom he has assisted in electing. He may voice his approval or disapproval of budgetary plans by appearing in budget hearings and urging their adoption or rejection. It has been pointed out elsewhere, however, that in actual practice this method has little significance. Its failure is due not to the plan itself, but to apathy on the part of the public. If, having taken advantage of public hearings, the citizen is not successful in his contentions, he may resort, finally, to elections, and there work in opposition to those who failed to comply with his requests. There is thus the possibility of control on the part of both the state and the individual.

External control is only half of the control feature in the case of municipalities. As executives and administrators are controlled, so also may they control, in turn, those who are responsible to them. We might think of this as internal control. For example, an executive or legislature may require the departmental heads to set up the estimates for their divisions, or make the necessary cuts when cuts are deemed expedient. Moreover, these same individuals or agencies may control the budget in its execution.

They may allow the departments, for instance, to spend only one-twelfth of their allowance monthly, although this particular example is open to criticism. The one-twelfth allowance may be criticized particularly because it does not allow for seasonal expenditures or fluctuations in the spending-needs of the departments. The executive allotment system might be a better example of control in the execution of the budget.

These internal checks are impossible unless adequate records of all municipal transactions are kept. This means a record not only of cash receipts and cash disbursements, but also a record of all accrued and deferred items. If data be kept upon this basis, it is possible at all times to prepare statements showing the condition of current accounts, capital accounts, sinking funds, trust and special funds, and surplus accounts. Moreover, consolidated balance sheets may be used to show the trend of events.

Before a budgetary system is installed it is well to recognize the advantages offered by way of control. A system of municipal accounting with special emphasis on costs should be developed, and adequate reports and records should be prepared in order to correlate the activities of accounting and budget-making. When the possibilities of control in a budget are recognized, and when the necessity for adequate reports and records is realized, a city can adopt a budget procedure which is best adapted to local conditions. Whether control of and responsibility

for the budget shall be vested in the executive, the legislature, or a combination of the two, depends upon the form of local government. Either an elected mayor or comptroller is the best individual to exercise control and responsibility; in the manager form of government, the manager. The procedure adopted may properly vary, depending upon whether the form of local government be mayor-council, commission, or manager, but, in general, the following is intended to be suggestive:

1. Preparation of estimates by department heads on uniform forms sent out periodically by the responsible executive.

2. Review of estimates by responsible executive.

3. Preparation of the budget by the executive with assistance of the following data: (*a*) expenditures of previous two to five years; (*b*) proposed expenditures—act of appropriation with supporting data; (*c*) transfer and control methods; (*d*) statement of past and estimated revenues and proposed revenue measures; (*e*) balance-sheet assets and liabilities.

4. Submission to council.

5. Consideration of budget in committee of the whole—mayor and department heads to be heard.

6. Separate vote on each main item.

7. Right of mayor to correct and supplement his estimates.

8. Report on executive budget by committee of the whole.

9. Council empowered to reduce but not increase executive proposals.

10. Mayor's veto.

11. Special safeguards for supplementary appropriation measures.

The original estimates should be made by the various department heads, upon uniform blanks furnished by the persons responsible for initiating the budget, say the comptroller. If this be done at the same time each year, the department heads can have their estimates in such shape that the completed estimates may be returned easily within ten or fifteen days after the receipt of the form. The comptroller may begin his revision as soon as he has received the estimates from the departments and may call in department heads for consultation in case he believes their estimates are in excess of that which the council will grant. Sometimes the clerk of the council sends out the estimate forms, and when they are returned to him, he assists the budget committee of the council or the council itself, as the case may be, in making the revisions. These revisions are incorporated in a tentative budget. The period for revision will extend from fifteen to thirty days and sometimes longer.

During the course of the budget preparation, it might be well for a city to hold a budget exhibit in order to familiarize the citizens with city affairs. In any case, ten to fifteen days should be allowed for newspaper publicity in order that a study of the tentative budget may be made. Five to ten days

should be allowed for public hearings. Any criticisms and information brought out at the hearings should be used in revising, before an appropriation and tax-levy ordinance is drafted.

The tentative budget should be set up in two parts: the budget plan in its entirety, supplemented by schedules and a budget message; additional information relating to the financial condition and operations of the city government, etc. After the tentative budget is revised, it is then ready for approval by the council and the mayor.

The municipality is then in a position to formulate a work program. The work program is better as an administrative program made up after appropriations have been made by the city council. It is a means for the chief executive officer to control various departmental expenditures, the control being carried out through a system of executive allotments. This work program should contain a plan of the activities the city hopes to carry on. This involves a determination of the character of the work to be done, the agencies responsible for the work, and the cost of the work, and a decision of how the cost should be met. The character of the information must be classified because it insures uniformity of presentation on the estimate forms; it helps to make planning more accurate; it facilitates gathering, compiling, and revising the estimates; it permits comparisons between departments during past years, and leads to a better understanding of the budget. When

the budget classification and the accounting system are properly correlated, it secures better control and more efficient reporting.

Much has been said respecting the essentials of budget-making in many of our representative cities. It scarcely need be mentioned that the methods used in some cases are antiquated and have long since lost their value. For the most part, however, the matter of municipal budget-making has been developing, and there is much to be expected of the future. We can look for rapid development in most of the following essentials:

1. Greater responsibility. There has been a marked tendency to hold an individual or small group responsible not only for the initiation and preparation of the budget, but also for its execution. In a large city, if a comptroller be elected, it would be advisable to place him in control of the budget; if not, then the budget should be supervised by the mayor. Furthermore, in a large city, the final budget revision should be placed in the hands of a committee of the council which is responsible to the legislative body. There would be no occasion for such a committee in the case of a small city. It appears from the examination of several cities that the best results are obtained from the budget if the party or parties formulating the plan carry it out. It is shown that if these two duties reside in one person, he is likely to take greater care of the formulation of his program.

2. More competent staff assistance. It has been the practice in many localities to engage an extra clerical force when the time arrives for the preparation of the budget, with little regard to their training and experience in budget preparation. While this procedure cannot be avoided in many instances, there is a tendency toward a permanent retention of those engaged in such work. New York and Chicago have made determined efforts to hold a permanent budget force. The city auditors of some of the western coast cities have turned over the matter of budget-making to an individual, in each case, who works on the budget throughout the year, and he, in turn, retains such assistance as he needs from time to time.

3. More definite budget information. While a great deal has been done within the past ten years in respect to definite budget information, we can expect greater strides in the near future. Special analyses have been made, in many localities, of such features as the cost of the work and how the cost shall be met. Cost accounting is really only getting under way in both commercial and municipal undertakings. Studies of this kind will afford more definite information as a basis of budgetary estimates.

4. A uniform financial calendar. There needs to be a more careful adjustment between the budgetary year and the assessment and collection of taxes. The lack of uniformity even in individual cities between the various "years" has been elaborated upon. Needless to say, this leads to considerable confusion. It

is suggested that the budget be adopted before the year to which it applies arrives, and that the first payment of taxes should be made shortly thereafter, so that the budget may be put in operation forthwith. Although many cities still adhere to the fiscal year July 1 to June 30, there is a tendency in cities to adopt the calendar year as their fiscal year.

5. A complete budget plan. For the most part, cities have completely abandoned the one-sided expenditure or revenue idea of a budget. To be a budget, the plan must be two-sided; that is, a statement of proposed expenditures, balanced by the sources from which the revenue is to be derived. This gives a complete survey of the finances of a municipality and assembles the materials in a more understandable form. The old form of budget, in cities, is rapidly disappearing.

6. A work program. A city budget is a plan, usually for one year. It should be accompanied by a work program. Until recent years, there has been very little planning, or looking to the future, in municipal affairs. Some progressive communities of the present day have followed a work program designed to extend over a period of years. It is a goal for city development. A broad view must be taken of municipal needs especially when they relate to public improvements. A definite program of improvement will permit of a more equitable distribution of construction costs so that the burden will fall, say, over a period of five to ten years. A program of this kind

settles some of the charges in advance, so that the formulation of the budget is easier for the years in the interim.

7. Uniform budget classification. While cities are agreed that the budget consists of estimates of both expenditures and revenue, there is scarcely any agreement as to the proper classification for each. Suggestions by the United States Bureau of the Census have led to some slight uniformity, but cities using the main headings shift, combine, and change them around to such an extent that there is little similarity. It would be highly desirable if cities could be prevailed upon to adopt a uniform classification for both accounting and budget purposes, because then like accounts for the various cities could be used for comparative purposes.

8. A responsible legislative body. The bicameral city council has almost entirely passed away. Most people agree that our municipal administration has vastly improved under the direction of a single chamber. A well-organized, responsible, single-chambered legislative body and a carefully prepared budget have done a great deal toward removing municipal corruption.

9. Flexible appropriation ordinances. Appropriations should be set up in neither extremely itemized nor lump-sum forms; the former method leads to a great many changes and transfers; the latter is a movement in municipal budgeting in favor of lump-sum appropriations with executive allotments.

This method tends to prevent loose spending, since the responsibility falls directly upon the chief executive.

10. Few changes in the adopted budget. It is highly desirable that the budget be changed as little as possible after it has been adopted. This is a common practice in cities. Of course contingencies are likely to arise which will necessitate transfers, but it is believed by some that the use of executive allotments will solve the problem. This arrangement will prevent the council's changing the budget at will, and will make the executive responsible for the change.

11. Publicity on the budget. Although at times interest in city budgets wanes, public hearings, public exhibits, and newspaper publicity serve as mediums for presenting the facts to the public. It seems likely that budget information, through the public press especially, will tend to create an increasing interest in municipal affairs.

12. More effective control in the execution of the budget. If an individual or group be held responsible for the budget, a greater effort will be made in its execution. This will amount largely to a checking of the revenues and receipts from time to time. Monthly reports respecting the activities of various departments will tend to remove difficulties in their incipiency. Dependable accounting data will be most helpful.

13. Measuring results. Some effort is made in municipalities toward measuring the results of gov-

ernment, although this is pretty much a late development. It has been suggested that cities measure their purchases of services and commodities, the operations of governmental departments and agencies, and the actual results of departmental and institutional services. Just how far this can be done is a question, but already rapid strides have been taken in the analysis of costs.

14. Proper procedure in the installation of city budgets. It is not an easy matter to instal budgets in municipalities, chiefly because the plan must be based upon local conditions, which, of course, differ from city to city. Municipalities have come to realize the difficulties of installation, as evidenced in the tendency to engage specialists in that capacity. In general, the following, in installing a budget, is intended to be suggestive:

1. A survey of the city by some outside agency. This study should cover the following:
   a) What are present budget requirements and practices if a budget is already in use? A study of the city charter.
   b) Do the estimates furnish necessary information?
   c) Is there standard budget classification?
   d) Is there correlation between budget classifications and accounting classifications of data?
   e) Is there a definite employment policy?
   f) Has the city civil service for employees?
   g) Is there centralized purchasing?
   h) Is a budget exhibit used or is there need for more budget publicity?

i) Are segregated or lump-sum appropriations used, and if the latter, what restrictions on them, if any?
j) Is there proper control over city funds?

2. Is a complete budget plan possible under the present organization?

3. Recommendations:
   a) Adoption of budget classification and accounting control.
   b) Adoption of uniform estimate blanks and more complete data.
   c) Procedure in handling the estimates.
   d) The budget and appropriation ordinance.

4. Checks upon the execution of the budget.

Once installed, a municipal budget constitutes a program for the fiscal year. While it is true that each budgetary estimate may be considered complete in itself, at the same time it is part of a continuous financial policy over long periods of time. The yearly budget "is a link in the ever lengthening chain of the government's financial experience."

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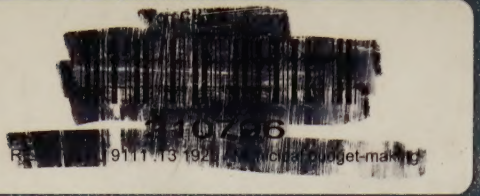
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